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HOUSING ACCESS AND STABILITY

What Policymakers Should Know about Institutional Investors' Role in the Housing Market

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Institutional investors' activity in the housing market is receiving more and more attention. Some claim these investors are taking away homeownership opportunities from would-be first-time homebuyers, particularly homebuyers of color, and exacerbating the affordable housing crisis through high rents and practices that affect renter stability.

As policymakers face pressure to improve housing affordability, many are trying both to understand local investor behavior and design policies that better manage it. But a lack of clarity around who institutional investors are and how they should be measured and tracked poses a challenge. The evidence we do have suggests some next steps policymakers can consider for a path forward and ways they can help researchers clarify the role of institutional investors in local housing markets.

What is an institutional investor in housing?

Across different research, institutional investors are defined inconsistently. Studies have measured them as entities that owned three or more homes simultaneously in the past decade, those that purchased 11 or more properties in a given area over two years, those that purchase 100 or more properties, and any homebuyer with a limited liability company (LLC) or a limited partnership (LP).

These differing definitions yield different lists of institutional investors as well as different conclusions on how many institutional investors are in the housing market, how big their footprint is, and how they affect affordability and available stock for purchase.

"Institutional Investor" is not a monolith

Institutional ownership varies substantially, and policymakers need to know which types of investors they want to target through public policy. For example, policymakers would need address institutional owners who renovate properties for resale with different policies or programs than they would address institutional buyers who hold properties as a long-term rental.

Earlier this year, my Urban Institute colleagues and I offered a classification scheme for different types of institutional investors in single-family properties. We identified two overarching groups—long-term and short-term holders—because these two groups have different business strategies and will therefore target different types of properties and geographies.

Long-term holders buy property and rent it out, intending to own the property for years. We categorized three types of long-term single-family investors:

1. **Mega investors** are those who own more than 1,000 properties in diverse locations. These investors own most investor-owned single-family rental properties (upwards of 77 percent, according to our analysis).
2. **Smaller investors** own more than 100 but fewer than 1,000 properties in diverse locations. According to our analysis of 2022 property records data, the median smaller investor operates in 10 metropolitan statistical areas (MSAs).
3. **Local investors** own at least 100 single-family rental properties but in a concentrated geographic footprint—more than 75 percent of their properties are within a single MSA, and greater than 95 percent are within two.

Short-term holders are those who work to sell the property as quickly as is economically feasible, usually holding the property for no more than a year. Within short-term holders, we identified six unique types of investors: flippers, builders, servicers, government agencies, nonprofits, and others. Combined, these investors owned about 13 percent of investor-owned single-family properties in 2022.

Different types of institutional investors own different property types—and thus have varied impacts on their housing markets

The characteristics of each long-term holder were quite different, and as a result, their impact on the local housing market is likely to vary.

Single-family rental investors—particularly mega investors—tend to be highly concentrated in fast-growing MSAs. Mega and smaller investors had similar geographic footprints, while the top 20 MSAs for local investors differed more significantly. We found that mega investors tended to buy newer and larger homes that have a higher value after repairs than those purchased by other investors. Properties owned by mega investors were also more concentrated in high-income tracts than other investors, and their holdings were in tracts that mirrored the racial makeup of the rest of the MSA's rental population.

By contrast, smaller investors bought slightly older and smaller homes that were considerably less valuable, even after repairs. Local investors bought homes that were older, smaller, and less expensive, with the property characteristics resembling those belonging to government agencies or nonprofits. Local investors' properties were more likely to be present in lower-income tracts and in tracts that were more heavily nonwhite.

The headlines claiming that institutional investors are making all cash offers to outbid potential homeowners and taking away wealth-building opportunities from people of color with lower incomes are not necessarily untrue. But our research suggests that despite being most often discussed in the headlines, mega investors may not be the ones to target in policies seeking to improve opportunity for first-time homebuyers. In fact, mega investors could be improving unsafe or uninhabitable rental stock because they can repair homes more cost-effectively than homeowners, particularly given the current state of renovation financing.

Policymakers should seek to understand the obstacles first-time homebuyers face when competing with investors and consider leveling the playing field. That could include implementing or lengthening first-look periods for potential owner occupants or improving the availability of renovation financing. Policymakers can also encourage bigger actors, like mega investors, to improve the rental experience in the homes they own by incentivizing them to offer rent reporting or accept housing choice vouchers.

Disaggregating between different types of institutional investors and their impact is critical to designing public policy that is not only well-meaning, but also well-functioning.

What can policymakers do to better understand the landscape on institutional ownership?

At national and local levels, policies have been proposed, and in some cases, passed, to limit institutional ownership, including first-look initiatives, US Department of Housing and Urban Development vacant loan sales to nonprofits, limits on total property purchases, financial penalties on institutional purchases, and mandated wait times between purchase and rental of a property.

But research that clarifies the impact of such policies is lacking, at least in part because of a dearth of data.

Administrative records on property ownership contain misspellings, data entry errors, and missing variables. Further complicating the issue, investors often form many anonymous shell entities—like LLCs and LPs—which obscure true ownership. When several agencies in a single locality are involved in data collection, it raises issues of compatibility and consistency. This gets even more complicated if one wants to merge datasets from across localities to get a regional or national idea of investor ownership.

Policymakers would benefit from improving their flow of information. One way to do this would be by requiring localities to track and publish ownership in similar ways so data are accessible and reliable.

- States and localities could consider requiring local rental registries, which capture and monitor the ownership and composition of different rental properties and require landlords to register each unit they own and provide their contact information.
- States and localities could also require rental properties owned by LLCs to disclose who they're associated with and make those data public.
- Federal policymakers could consider implementing guidelines on how local administrative offices can avoid or correct errors in taxpayer data.

Ideally, research should lead and inform public policy, not the other way around. But the lack of data and clarity on institutional investors has blocked the research-to-policy pipeline.

Affordability, Federal Policy, Homeownership, State Policy, Local Policy

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