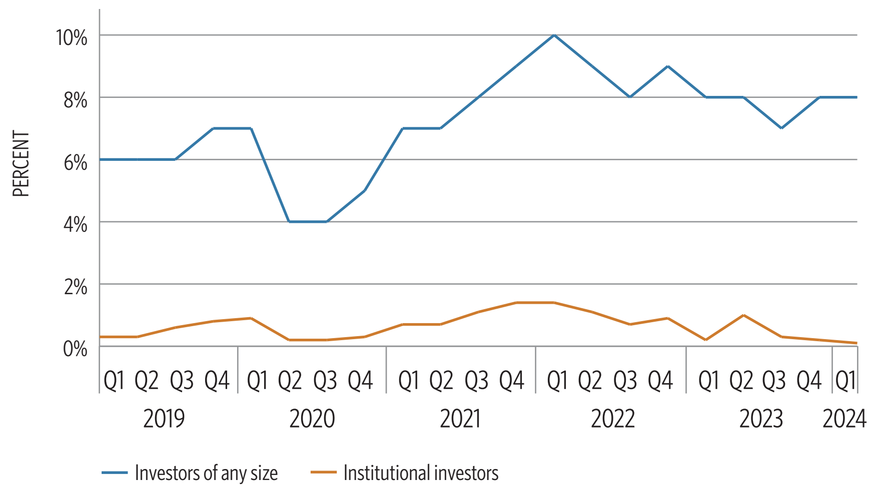
BY SIERRA STONEY

The Roles of Single-Family Housing Investors, Big and Small, in the Fifth District

Single-family investors have received more public scrutiny over the past several years as their share of overall home purchases has grown while housing was becoming less affordable due to a national supply crunch. Institutional investors have especially been capturing headlines recently, as homes have become more expensive since 2020 due to increased demand and dwindling supply. But this type of investor has only been active in single-family markets in large numbers over the past 15 years; most single-family investment home purchases are still made by smaller investors. And while institutional investors focus their attention on major cities, smaller investors are active everywhere. What roles do large and small investors play in local housing markets across Fifth District communities?

Investor Share of Fifth District Single-Family Home Purchases



NOTE: "Single-family homes" include both detached and attached structures, that is, townhomes or row homes. Mobile and manufactured homes and duplexes were excluded. Investors were identified and classified according to size based on the mailing address associated with most recently available property tax data. Records with incomplete mailing address data, mailing addresses associated with mortgage brokers, or owner names that indicated the property is owned by a homeowners' association, public housing authority, or public sector department were not identified as investor properties.
SOURCE: CoreLogic and author's calculations.

WHO ARE SINGLE FAMILY INVESTORS?

Taking a broad view, any individual or company that purchases a single-family home for a reason other than personal use is a single-family investor. Narrower definitions significantly underestimate the number of investor purchases. For example, since 2019, the share of single-family homes purchased by investors of any size in the Fifth District was six times greater, on average, than the share purchased by institutional investors — defined as investors who own 1,000 homes or more. (See chart.)

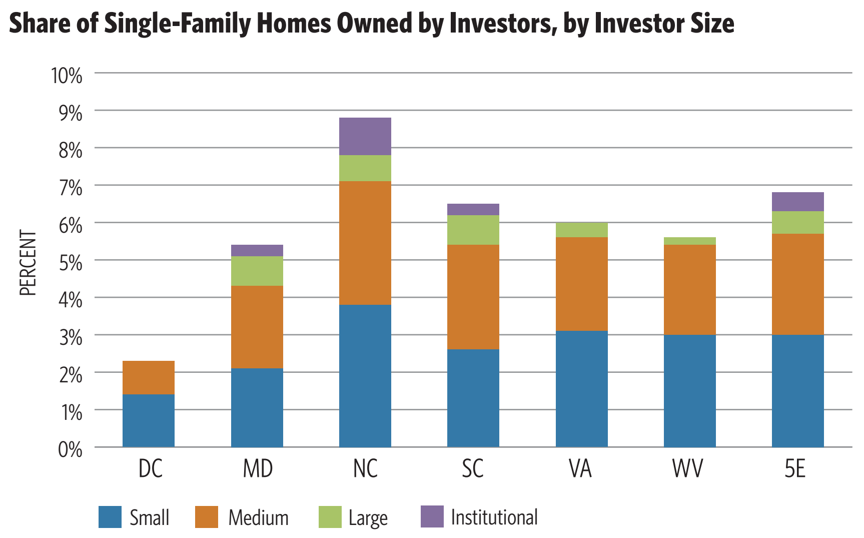
Within the Fifth District, we used the most recently available property tax data to identify single-family investors as property owners who own at least five single-family homes. Overall, 6.9 percent of single-family homes are owned by investors. The District of Columbia has the smallest share of investor-owned single-family homes (2.3 percent), and North Carolina has the largest (8.8 percent). Corporate investors owned between 45 and 65 percent of all investor-owned, single-family homes in the Fifth District, with individual investors accounting for the remainder.

Further distinguishing between single-family investors in terms of the number of properties they own provides insight into different types of investors. Individual investors, such as mom and pop landlords and individual short-term rental hosts, tend to own a smaller number of properties. The number of properties owned by a given corporate investor varies significantly, since corporate investors range from companies that own a small number of single-family rentals locally to institutional investors. Either directly or through subsidiaries, an institutional investor will own thousands of properties nationwide.

For our analysis, we categorized Fifth District investors based on the number of properties they owned:

- Small investors: 5 – 10 properties.
- Medium investors: 10 – 100 properties.
- Large investors: 101 – 1,000 properties.
- Institutional investors: more than 1,000 properties.

In every state and the District of Columbia, the majority of investor-owned single-family homes are owned by small and medium investors. Small investors, in particular, own more than half of the investor-owned



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SOURCE: CoreLogic and author's calculations.

properties in the District of Columbia, Virginia, and West Virginia. Institutional investors own a larger share of single-family homes in North Carolina than in other Fifth District jurisdictions, accounting for 12 percent of investor-owned single-family homes in the state. (See chart.)

THE GEOGRAPHY OF SINGLE-FAMILY INVESTORS

Different types of single-family home investors tend to have different patterns in where they invest. Institutional investors limit their single-family purchases to a few major metropolitan areas, while individual and smaller corporate investors are present across a wider number of communities.

Institutional investors prefer major metropolitan areas, in part because the housing market indicators used to make purchasing decisions are more easily available in large markets. A 2022 National Association of Realtors study found that institutional buyers are attracted to counties with growing demand for both rental and ownership homes. Specifically, counties with elevated shares of investor purchases were characterized by relatively strong home and rent price growth, high in-migration rates, and high income levels. Under these conditions, investors can expect single-family homes to reliably generate returns via income from rent and property value appreciation over time.

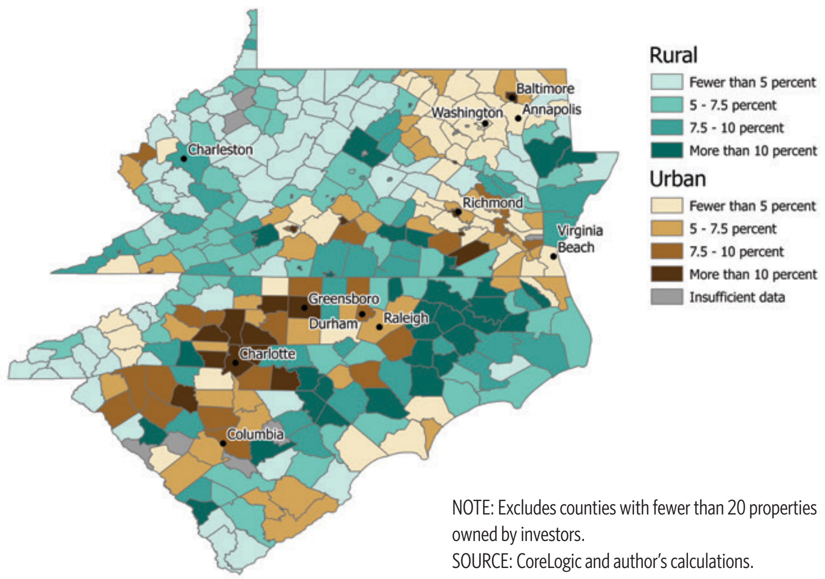
Within the Fifth District, large and institutional investors have been disproportionately active in the Charlotte, N.C., metropolitan statistical area (MSA). Across the 10 counties that make up the Charlotte MSA, 3.9 percent of all single-family homes are owned by large and institutional investors, compared to only 1.1 percent in the Fifth District overall. Institutional investors specifically own high shares of single-family properties in Mecklenburg County (where the city of Charlotte is located) and neighboring Cabarrus County — 4.2 percent and 4.9 percent, respectively.

In contrast, researchers have found that smaller corporate investors tend to purchase single-family homes in the same metropolitan area as their headquarters. Investing locally gives these investors a greater ability to closely track housing market conditions for communities where they are investing, making them less reliant on large-scale indicators. From an operational standpoint, smaller corporate investors find it easier to establish and maintain relationships with local partner organizations, such as contractors to renovate or maintain the properties they acquire or local property management firms to manage scattered-site rentals.

Adding individual investors and smaller corporate entities to the analysis reveals that single-family investors are present in the vast majority of Fifth District counties. Urban counties with relatively high shares of investor-owned single-family homes are located around Charlotte and Greensboro, N.C. Clusters of rural counties with relatively high shares of investor-owned single-family homes are located in the Inner Coastal Plain region of North Carolina. Several additional rural counties with high shares of investor-owned single-family properties are located throughout Maryland, Virginia, and South Carolina. (See map.)

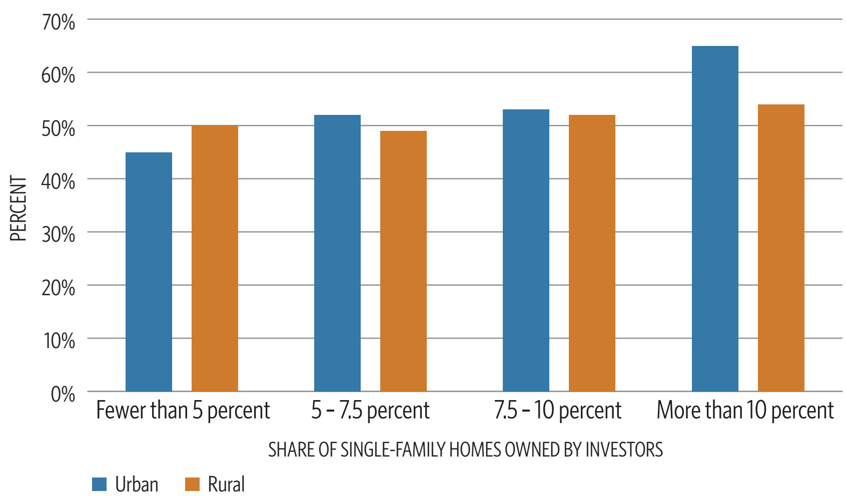
Within a county, investors concentrate their attention on certain neighborhoods. In a 2022 report, Emily Dowdall and Ira Goldstein of the Reinvestment Fund and Bruce Katz and Benjamin Preis of Drexel University identified common characteristics of neighborhoods with elevated shares of single-family home purchases by corporate investors. Using data on local real estate market conditions from Reinvestment Fund's Market Value Analyses in Philadelphia, Pa., Jacksonville, Fla., and Richmond, Va., they found stronger investor activity in communities with relatively distressed housing markets and higher shares of Black or Hispanic residents. Investors are attracted to places with

Share of Single-Family Homes Owned by Investors, by County



NOTE: Excludes counties with fewer than 20 properties owned by investors.
SOURCE: CoreLogic and author's calculations.

Average Share of Single-Family Home Price Change, by Level of Investor Ownership, July 2019-July 2024



NOTE: Excludes counties with fewer than 20 properties owned by investors.
SOURCES: CoreLogic, Zillow Home Value Index, and author's calculations.

relatively low sale prices, high mortgage denial rates, and high residential vacancy rates. Purchasing homes in these markets especially provides investors with opportunities to realize capital gains when they resell a home after renovations.

HOW INVESTORS INFLUENCE HOUSING MARKETS

Depending on investors' intentions and local conditions, investors can introduce both benefits and challenges to local housing markets. Researchers have explored how investors influence housing prices and affordability.

House purchases by investors naturally increase housing demand, which corresponds to growth in median home sales prices. In some cases, this can benefit neighboring homeowners by contributing to appreciation of their home's value. For example, in a 2023 article, Rohan Ganduri of Emory University and Steven Chong Xiao and Serena Wenjing Xiao of the University of Texas at Dallas found that bulk sales of foreclosed single-family homes to investors by government-sponsored enterprises positively affected sales prices of nearby homes. The study focused specifically on sales made through the Federal Housing Finance Agency's Real Estate Owned (REO)-to-Rental program, which targeted metropolitan communities with large shares of REO properties. These findings demonstrate how investor activity can stabilize housing prices in distressed markets, which helps protect the value of neighboring homeowners' equity.

Within the Fifth District, the share of single-family homes that are investor-owned appears to be weakly correlated with recent single-family home price growth. Among urban counties, the average price growth rate for a typical single-family home between July 2019 and July 2024 increased as the level of investor ownership increased. Rural counties do not show the same consistent relationship: Home prices grew more rapidly in counties with the smallest share of investor-owned single-family homes compared to the subsequent category. (See chart.)

On the other hand, price growth makes homeownership less affordable to homebuyers. Research by Carlos Garriga of the St. Louis Fed, Pedro Gete of IE University, and Athena Tsouderou of University of Miami, which included small and medium corporate investors, found that MSAs with more investor activity experienced greater median home price growth. They then grouped home sales into low, middle, and high price tiers to assess how investors affect these subsets of the housing market. The price growth associated with investor activity was more pronounced among low-priced homes, meaning investor purchases erode affordability for entry-level homes especially.

At the same time, first-time homebuyers are also more likely to find themselves in direct competition with investors for homes in the bottom price tier. Investor purchases consistently account for a larger share of low-priced single-family home sales than mid- or high-priced sales. Because they can either afford an all-cash purchase or have more cash on hand for a down payment, investor offers often look more attractive compared to homebuyer offers. Investors who can make all-cash offers are also less sensitive to mortgage rate increases, which allows them to acquire low-priced properties when prospective homebuyers postpone their housing search in response to high interest rates.

HOW INVESTORS INFLUENCE NEIGHBORHOODS

While purchasing homes affects local housing markets, what investors do with the homes they own can change neighborhood characteristics for better or worse. Their actions directly affect housing quality and availability.

Investors often improve the homes they purchase, which adds to the quality of a neighborhood's housing stock. In extreme cases, rehabilitating homes that have significantly fallen into disrepair can add properties back into the supply of viable homes and decrease housing vacancy rates. Many homebuyers would lack the financial resources to invest in substantial repairs immediately after purchasing a property in this way. Yet investor spending on home improvement is not unequivocally positive. Investors focused on realizing quick returns by flipping a home might focus on cosmetic improvements to increase the home's value while overlooking more critical underlying repair needs. Regardless of the investor's intentions, investing in improving a property directly improves its market value and contributes to home price increases more generally.

Because some investors purchase single-family homes from owner-occupants and convert them to rentals, neighborhoods with high levels of investor activity experience both declining homeownership rates and a declining number of homeowners overall. Although investor ownership precludes prospective owner-occupants from acquiring these homes, *long-term* rentals remain part of the local housing supply — just in the rental market instead of the ownership market. These homes are still being used as a primary residence and help meet growing demand for single-family rentals. In contrast, investors who convert homes to *short-term* rentals remove them from the housing supply altogether by instead using them as lodging.

Having a mix of owner- and renter-occupied homes makes communities accessible to households in different stages of their lives. Single-family rentals are essential for this purpose in places where multifamily properties are either not permitted or infeasible. Rural communities especially rely on single-family rentals to provide housing opportunities for households that are not able to purchase a home. Within the Fifth District, more than half of rural renters live in single-family homes, compared to just over a third of urban renters.

Researchers have found evidence, however, that renters might be exposed to greater housing security and well-being risks with corporate investor landlords. For example, Elora Raymond and Richard Duckworth of the Atlanta Fed and their co-authors found in a 2016 discussion paper that corporate investors in Fulton County, Ga., with more than 15 single-family rental properties were more likely to file eviction notices, even after controlling for property and neighborhood characteristics. In a 2019 article, Adam Travis — a sociologist at Harvard University — found that single-family rentals owned by corporate investors in Milwaukee, Wis., were more likely to be in disrepair. This often happens when investors expect greater returns from rental income than from home value appreciation.

POLICY RESPONSES

Throughout the Fifth District, public and community-based organizations have built policy strategies to mitigate housing challenges associated with investor activity.

In communities where first-time homebuyers compete with investors for low-priced homes, down payment and closing cost assistance allow homebuyers to make more attractive offers. In addition to giving homebuyers more of an edge from the seller's perspective, these resources may lower the homebuyer's monthly mortgage payment by reducing the amount of financing needed. Down payment and closing cost assistance programs are offered by federal, state, and local governments, nonprofits, and even some financial institutions. For example, income-qualified Virginians are eligible for down payment and closing cost assistance grants through Virginia Housing — the state's housing finance agency. Homebuyers are allowed to pair these grants with other programs, such as the Virginia Department of Housing and Community Development's HOMEownership Down Payment and Closing Cost Assistance program which offers flexible gap financing for income-qualified first-time homebuyers.

Nonprofits that acquire homes for resale to income-qualified homebuyers also help connect homebuyers who would have trouble competing with investors for affordable homeownership opportunities. In the Richmond area, Maggie Walker Community Land Trust (MWCLT) acquires and rehabilitates existing homes, which are then sold to income-qualified homebuyers.

The community land trust model, where MWCLT retains ownership of the land on which the home is built in trust, allows the homes to be sold at affordable prices in perpetuity. They focus on creating affordable homeownership opportunities in neighborhoods experiencing gentrification and rapid price appreciation, and work directly with first-time homebuyers to prepare them for all aspects of homeownership.

To complement the market-rate single-family rentals made available by investor landlords, some Fifth District nonprofits provide single-family rental housing affordable for low- and moderate-income households. Self-Help Credit Union is a community development financial institution, or CDFI, headquartered in North Carolina with a real estate development arm. In late 2019, it acquired a portfolio of 58 scattered-site residential properties in Rocky Mount, N.C. — a rural community located east of Raleigh. Existing homes were either renovated or demolished depending on their condition, and vacant lots were developed into either single-family or two- to four-unit structures. Several homes were made available for sale to income-qualified homebuyers, but the majority are single-family rentals managed by a local property management partner.

Local governments can protect and support tenants living in investor-owned homes through policy. Ensuring that tenants are aware of their rights and how to access local resources for resolving conflicts with their landlords makes it more likely that tenants will seek assistance before problems escalate. In an article earlier this year, Ben Horowitz and Libby Starling of the Minneapolis Fed argued that maintaining local rental registries creates greater transparency in the single-family rental market and keeps investor landlords accountable. For corporate investors, registries can also collect information on who is responsible for paying damages if the property owner is found liable.

CONCLUSION

While institutional investors own single-family homes in a handful of counties throughout the Fifth District, small- and medium-sized investors are active in every county where data are available. Investors can benefit local housing markets if they rehabilitate distressed properties or create single-family rental opportunities. However, not all investors will choose to substantially improve the properties they own or allow them to be used as primary residences, which limits positive neighborhood effects. Regardless, research has demonstrated that investor activity tends to exacerbate affordability and availability challenges for prospective homebuyers, especially those in the market for relatively low-priced homes. Throughout the Fifth District, government and nonprofits are implementing strategies to help mitigate challenges related to investor activity. **EF**

REGIONAL ECONOMIC SNAPSHOT

This monthly update on the Fifth District economy includes timely analysis of labor market, housing, and other conditions at the state and metro area level.

See the full analysis at richmondfed.org