

How do Investors Impact Homeownership?

By: Jann Swanson | Wed, Sep 4 2019, 8:31 AM

The Urban Institute (UI) says the recent surge of investor purchases of single-family homes is raising related policy issues. In blog post examining those purchases, UI analysts Ellen Seidman and Sheryl Pardo ask three questions.

1. Are investors taking homeownership opportunities away from individuals and families?
2. Are investors creating and maintaining quality affordable rental units?
3. Are investors increasing home prices?

According to a recent New York Times story, **investors purchased one-fifth of all single-family starter homes** that sold in 2018. Starter homes were defined as the bottom third priced homes in the local market. This is more than in the early years of the Great Recession's recovery and double the volume purchased 20 years ago.

The UI analysts reference findings from the 2017 American Community Survey that investors own and rent out about 18.2 million one-unit homes, providing housing for about 42 percent of the nation's 43 million renter households. This can be beneficial as investor-owned properties increase housing options and quality in communities, but they can exacerbate existing housing market problems.

Are investors taking homeownership opportunities away from individuals and families? When an investor and a potential owner-occupant are vying for the same property, **the investor is likely to have a big edge as they can often pay cash**. The owner-occupant usually needs mortgage financing which can increase both the timeline and the uncertainty of a sale.

Investors, especially larger and more professional ones have technological and managerial advantages that allow them to determine home values and act quickly while smaller investors often use auction websites to find, price, and bid on homes. Thus,, when the competition faced by owner occupants is an investor, the latter has advantages of both information and capital.

Seidman and Pardo ask if investors are leveraging those advantages to the detriment of homebuyers, are they adding value to the system by improving the housing stock, or are they just flipping to sell at a profit, at the expense of homebuyers. One answer is that some investors specifically look for homes that need renovations and repairs while some potential homeowners lack the interest, skill, and financial ability to repair a home that may require a lot of work. In those cases, **investors will potentially increase the supply of homes** that are well located and large enough to meet the needs of families who are unable to buy.

The authors suggest a policy of encouraging nonprofit organizations to provide financial, labor, and skill assistance to those who find move-in repairs to be cost or skill prohibitive. They could also act as intermediaries where sellers such as Fannie Mae and Freddie Mac have instituted First Look programs that give owner occupants a limited time first crack at properties that have been foreclosed. However, they say the reach and capacity of nonprofits aren't currently sufficient to level the playing field. Supporting increased nonprofit capacity is a policy governments, philanthropies, and financial services providers should consider.

The answer to the second question, whether investors are creating and maintaining quality affordable rental units is determined by whether investors, particularly if they concentrate in a community, make shoddy repairs, poorly maintain their properties, refuse to accept housing vouchers, or unfairly evict or otherwise mistreat their tenants. If, on the other hand, they are responsible owners, **they can broaden access to single-family homes near good schools and safe neighborhoods**. Such access can also increase labor mobility, both by providing workers rental options in better locations and by not locking potential homeowners into housing that's far from quality jobs.

The authors say the answers here remain to be seen and need to be studied. The job these investors, especially institutional investors, do repairing and maintaining their properties is more complicated with individual homes than with apartment housing.

Large-scale owners of investor homes may benefit from economies of scale, but they might also be quicker to evict and be less flexible overall. Many larger investors have investors of their own; what will happen when they need to be repaid? What kind of connections will large and small investors have with the community?

The policy questions here are local. Communities need to know who is buying and who owns single-family rental units, including properties sold at tax auctions, so landlords can be held accountable for maintenance, taxes, and business practices. Because many investor purchases are made through limited liability companies, transparency can be lacking. Communities need to monitor properties with code enforcement and institute eviction protections to support tenants' well-being.

It can be **difficult to determine investor impact on home prices**. If investors are buying homes and improving them, their prices, and

perhaps those in the neighborhood will increase, at least until the market is saturated. If improvements are shoddy, prices could be artificially inflated. Where investors are merely flipping vacant homes, the increased supply might depress prices. The authors say that, while economists claim that prices can not rise faster than the market will bear based on underlying factors such as employment, and the balance between supply and demand, "it isn't certain that this holds true in all micromarkets, like gentrifying neighborhoods."

Policy prescriptions here are complicated. The authors suggest that communities should encourage improvements in the housing stock that would make less subject to transfer to an investor. Options could include the following:

- Limits on increasing tax assessments (especially for less expensive homes) after homes are improved.
- Assistance in planning improvements that meet code but are also affordable.
- Grants and loan pools with fair repayment terms that are accessible to potential homeowners and nonprofits who will make "nonextensive" rehabilitation and repair.
- Support for prospective and new homeowners that will increase the likelihood of sustainable homeownership.

They suggest the Neighborhood Homes Investment Act introduced in the House, is one way to **help existing and potential homeowners acquire or improve homes requiring rehabilitation**, thus improving communities and enhancing owner-occupancy of existing housing stock.

Seidman and Pardo conclude, "We need to know more about the impact of investors on housing markets, workers, and communities. Strengthening the ability of localities to track investor impacts and taking steps to level the playing field between investors and would-be homebuyers can help alleviate these concerns."

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