Investor Share of Home Purchases in Decline

By: Jann Swanson | Tue, Aug 31 2021, 11:09 AM

In a report released on Monday, CoreLogic recaps investor activity in the housing market over the last decade. Its Investor Homebuying Report highlights purchase trends nationally by both investor size and the price tier of property purchased between 2011 and 2020.

The report says, at the beginning of this period, in 2011, the country "had recently reemerged from the 2006* housing market crash," and foreclosed properties were flooding the market. Many investors were looking to buy potentially high growth residential properties at a discount during this period. **That buying spree peaked in 2018 with a 16.8 percent investor share of sales.** Then the pace of investment slowed. By the following year, the investment rate was 16.3 percent, falling to 15.5 percent in 2020.

The report points out that this is 0.2 percentage point lower than the investor rate in 2012, when low prices and the foreclosure crisis made home purchases attractive to investors. CoreLogic says that investors have maintained a strong presence in the market over the decade, with their participation oscillating between 15 and 17 percent of total purchases. While this share has swung higher and lower, the number of homes purchased has gradually grown. Since 2017 investors have bought an average of 1.1 million homes **while their share has varied with the total purchase market.**

Investment in single-family rental property has long been dominated by so-called mom and pop investors, which CoreLogic defines as those "who have kept three to 10 homes." Attention shifted to large investors who **bought up hundreds of thousands of foreclosed homes during the Great Recession**, but small investors remain responsible for the bulk of activity and their rate seems to be increasing. Between 2011 and 2020 their share grew from 54 to 56 percent. Between 2018 and 2020 alone it increased from 53 to 56 percent.

Small investors appear to have plucked their increased share from those of medium-size, owners of between 11 and 100 homes. Their share of purchases fell from 34 to 32 percent between 2018 and 2020. Large investors, those who retained more than 100 homes, have remained steady at around a 12 percent share over those most recent three years.

CoreLogic says, despite the decreasing rates, investors have maintained a strong presence in the market during the last 10 years. The growing share of homes purchased by smaller investors is likely due to large out-migration from expensive areas to more affordable ones, allowing smaller investors to snap up properties at lower rates.

Not surprisingly, investors tend to purchase lower priced homes. In the lower one-third price tier, investors made 18.8 percent of purchases in their respective metro areas. The middle third and upper thirds each had a 12 percent share. Investor activity has fallen by 1 or 2 percentage points in all three tiers since 2018, consistent with the overall investor decline.

"At this critical juncture - the first year into the new decade and continually moving farther away from the pandemic - when the hot housing market cools down, we may see investor activity increase as they try to buy more properties at lower prices," said Molly Boesel, principal economist at CoreLogic. "Although investors seem to have given some of their coveted market share to buyers, it's hard to say how long this trend will last - or what the long-term implications will be on a larger scale."

The company also looked at investor activity on a regional and metropolitan area basis and found that, while California dominated investor activity ten years ago, with seven metros in the top 10, not one California city made that list in 2020. Instead, the leaders were distributed across the Mountain West, Midwest, and South in cities with lower prices and growing populations.

Investor activity was the lowest in the Northeast over the past decade, with eight of the bottom 10 metro areas coming from that region. Hartford had the lowest investor share at just 8 percent.

CoreLogic also found that the investor share of the market has increased with overall market share over the last decade as housing turnover has risen. On a metro level there seems to be a good correlation between the two.

While CoreLogic says it can't positively conclude this, the correlation could indicate that investors are purchasing homes that might otherwise have gone to homeowners. On the other hand, it could mean that investors are merely spotting a hot market and choose to jump in, anticipating further growth.

There was an additional factor influencing investor behavior in 2020; the imposition of eviction moratoriums. In places with moratoriums and strong tenant rights, renters who couldn't pay made it challenging to have a reliably lucrative investment. These restrictions likely deterred investor activity since they brought an additional layer of risk to the market.

While the investor share of home purchases has fallen since its 2018 peak, CoreLogic says it can't definitively link this to any single market condition. **It can't be attributed solely to the coronavirus pandemic, as rates were also down in 2019.**

The report concludes, "Although investors seem to have lost some of their market share to owner-occupant buyers, it's hard to say how long this trend will continue, or what long-term implications it will have on the larger market. At this juncture, the first year into the new decade and the first year since the start of the pandemic, what we may see as the housing market cools down -with more for-sale inventory and slower home-price growth in 2022 -is an increase in the investor share."

*Editor's Note: While we have never encountered this reference before, the report repeatedly refers to the housing crash of 2006.

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