LOUISVILLE BUSINESS FIRST

Investors are buying cheaper homes at a record rate — and certain markets have their attention

Andy Medici

February 15, 2024

Elevated mortgage rates and a sluggish rental market have pushed investors toward more-affordable homes.

High mortgage rates have pushed investors to buy more low-cost homes than ever before, according to a new analysis by real estate firm Redfin Corp.

Redfin's research shows that investors bought 26.1% of low-priced homes sold in the United States in the fourth quarter of 2023, the highest share on record and up from 24% a year ago. Investors purchased 16% of high-priced homes and 14% of mid-priced homes — both lower than their 2022 peaks but higher than before the pandemic.

Overall, investors bought 18.5% of every home in the United States that sold in the fourth quarter of 2023.

The Redfin analysis looked at county home purchase records across 39 metro areas. Low-priced homes were defined as those that fell into the bottom third of local sale prices; high-priced homes were in the top third. An investor was defined as "any institution or business that purchases residential real estate."

“I get tons of emails every day from investors looking for properties, but of course, they only want homes that are under market value, which are hard to come by," said Carrie Caruthers, a Redfin Premier real estate agent in Riverside County, California, in a statement accompanying the Redfin research. "When they find those properties, they pile in.”

The shift to low-priced homes seems to be part of a broader retrenchment among investors, according to the Redfin analysis. Investor purchases of homes collectively have fallen, dropping 10.5% from the fourth quarter of 2022 to the fourth quarter of 2023. That's less than the 12.2% overall decline in home purchases reported during that time, but it continues a longer-term drop in investor purchases that began earlier in 2022 after a massive spike during the pandemic.

The drop in overall purchases could be because of higher interest rates, elevated home prices and a sluggish rental market, Redfin reported, adding that the decline explains the shift to cheaper homes: It's easier to make the numbers work.

“It’s too early to say that investor purchases have hit a bottom, but they’re unlikely to shoot up like they did during the pandemic anytime soon,” said Redfin Senior Economist Sheharyar

Bokhari in the report. “That’s because borrowing costs and home prices remain high, the number of homes available to buy remains low, and rents remain lackluster. If the Fed cuts interest rates later this year as expected, we may see more investors wade into the housing market.”

What properties are investors buying?

Most of the homes being purchased by investors — about 68.6% during the fourth quarter of 2023, according to Redfin — are single-family homes. Condos represent the second-largest share of purchased properties, at 19.2%, followed by townhouses at 7.1% and multifamily properties at 5.1%.

The markets where investor purchases increased the most year-over-year were Riverside, California (+25%); Chicago (+20.9%); and San Jose, California (+18%), according to Redfin. The markets where investors bought the highest share of homes that sold during the fourth quarter of 2023 were Miami, where investors bought 31.5% of homes that sold, followed by Jacksonville, Florida (25.6%), and Anaheim, California (25.5%).

Redfin reported that the total supply of homes for sale fell 5.1% in December over the same time in 2022 and remained far below pre-pandemic levels.

Since 2021, investors have made about one-quarter of all single-family home purchases, according to CoreLogic Inc., an Irvine, California-based property data company. The largest of those investors, however, have begun to pull out of the market in recent months — a retreat of the so-called iBuyers that previously had scooped up thousands of properties.

Purchases by investors have sparked both public and political backlash. Sen. Jeff Merkley, D-Oregon, and Rep. Adam Smith, D-Wash., in December introduced the End Hedge Fund Control of American Homes Act of 2023 that would bar hedge funds from owning single-family homes and force them to sell 10% of the total number of single-family homes they currently own to families per year over a 10-year period. After a 10-year phase-out, all hedge funds would be banned from owning any single-family home.

“The housing in our neighborhoods should be homes for people, not profit centers for Wall Street. Yet, in every corner of the country, giant financial corporations are buying up housing and driving up both rents and home prices,” Merkley said in a statement announcing the legislation.

Some experts have pushed back on the idea that investors are a problem for the overall housing market or that they exacerbate affordability issues. A Brookings Institution report found that large institutional investors owned about 3% of single-family rentals.

"Institutional investors may be convenient boogeymen, but the reality is that they serve a market purpose. Moreover, housing problems run much deeper than critics care to admit," said Vanessa Brown Calder, director of opportunity and family policy studies at the Cato institute, in a November blog post. "Even if — through some unlikely and ill-advised action — policymakers were able to eliminate institutional investors’ market participation, housing markets across the country would still be subject to a plethora of federal, state, and local policies that produce high-cost housing."