



Lawmakers Target Corporate Landlords for 'Predatory' SFR Investment

By Erik Sherman

June 30, 2022

A US House Subcommittee on Financial Services takes aim at investors' purchases of single-family homes.

The title of the virtual hearing by a US House Subcommittee on Financial Services subpanel on Wednesday, “Where Have All the Houses Gone? Private Equity, Single Family Rentals, and America’s Neighborhoods,” pretty much sums up the aim of the event. That was even more pointed than a previously planned title.

“Today’s hearing will examine troubling issues regarding the mass predatory purchasing of single-family homes by private equity firms, including the adverse impact predatory purchasing has had on first-time home buyers, the working class, and people of color.” opened chair Rep. Al Green (D-TX). “After an extensive investigation into this practice, we have found that private equity companies have bought up hundreds of thousands of single-family homes and placed them on the rental market.”

It is true that institutional investment in single-family homes has jumped sharply, according to an analysis from the National Association of Realtors. Institutional buyers comprised 13.2% of the residential sales market in 2021, up from 11.8% in 2020. Institutional investors paid median prices that were 26% lower than overall median prices in the same states. Unlike consumer purchasers, institutional investors can move quickly and tend to offer all-cash deals that are more certain to close.

Institutional buyers are also aiming at lower cost homes, which increases competition in parts of the market that younger and first-time buyers inhabit.

However, the title “institutional investor” rests on the use of LLCs, which mom-and-pop buyers might also use on the advice of legal and financial advisors. An identification of “private equity firms,” although they are represented in the mix, seems too specific.

Cato Institute vice president Norbert Michel, responded in part, “It is always convenient to blame ‘Wall Street’ and ‘speculators’ for economic difficulties because those terms obscure the human component that drives specific economic outcomes, thus making it easy to deflect blame away from individuals and difficult to objectively evaluate particular claims.” He continued, “Yet, research demonstrates that institutional investors play a very small role in the single-family housing market—both in absolute terms and relative to large multifamily housing companies and other single family home investors.” However, that ignores the significant increase in institutional purchases of entry-level properties, which does squeeze out new homeowners.

Rep. Ralph Norman (R-NC) eventually commented to the effect that high gas prices were affecting all the trades and, with recent additional regulatory costs, were discouraging construction. However, the housing shortage has built up over close to 15 years, through low energy prices as well as high and during Republican and Democratic administrations. Norman also said that he was unaware of rent jumps of \$100 to \$200 a month, when rental housing price increases have been at historical highs.

Unfortunately, with two sides presented overly simplified cases of cause and effect, getting to a solution will be next to impossible.