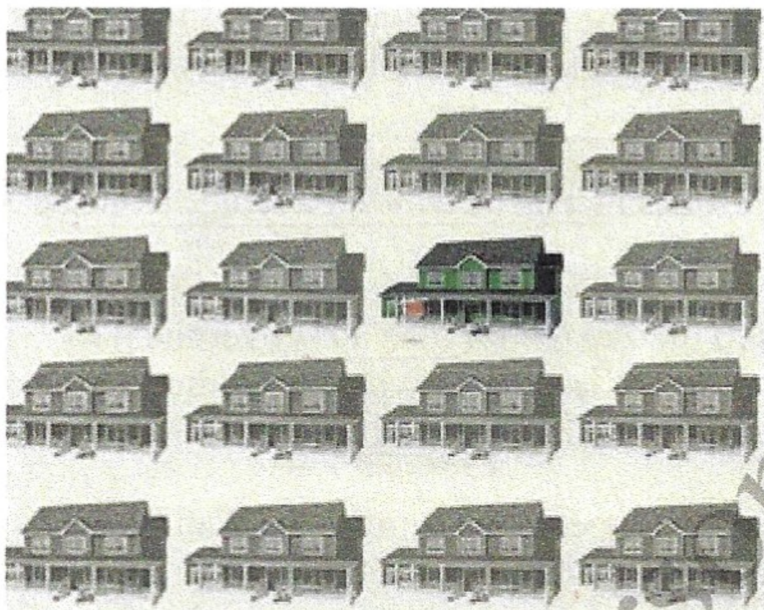
10·30·2024

# WSJ Print Edition

image



JOHNNY SIMON/ WSJ; ISTOCK



**Wall Street Home Buying Is Mixed Blessing**

**ZIP Codes where investors own a bigger share of houses see higher-than-average increases in prices and rents**

Wall Street landlords don't have a huge foothold in residential property yet, but they want one in the future. A handful of neighborhoods offer a preview of what that could mean for the U.S. housing market.

More than a decade ago, private- equity giant **Blackstone** began spending hundreds of millions of dollars on family homes that went into foreclosure after the 2008-09 financial crisis, creating a new asset class for institutional investors. Since then, corporate landlords including **Invitation Homes** and **Amherst** bought more than 600,000 houses in the U.S.

Big investors aren't always welcomed to the neighborhood. Vice President Kamala Harris said that if she wins the election, she will ask Congress to pass the Stop Predatory Investing Act that would remove tax benefits for corporate landlords buying single-family homes.

Nationally, Wall Street landlords that have more than 1,000 units in their portfolios own 1% of all of America's family homes and 4% of all of the houses that are rented out. In most areas, their presence is too small to have much effect on local housing dynamics. If current trends continue, though, their share of the market for single-family rentals could increase 10-fold by the end of the decade, MetLife Investment Management estimates.

There are a handful of U.S. neighborhoods where investors are densely clustered, particularly in the Sunbelt. They bought more than 1,000 homes in 53 ZIP Codes, putting their ownership of the local housing stock anywhere from 4% to 12%, according to data from realestate analytics firm Parcl Labs. The data include some houses temporarily owned by builders, as well as foreclosed properties on banks' books, but most are held by institutional landlords.

Wall Street housing investors tend to herd into the same neighborhoods because their algorithms spot the same opportunities. They screen the country for cities and towns with population growth and job openings—places where there is likely to be competition for homes. They prefer to own three-bedroom, suburban properties that are around 1,500 square feet in size and offer a convenient commute downtown. Young parents like these kinds of homes, and landlords like to rent to families because they become sticky tenants once their children enroll in local schools.

Big landlords are able to sift through reams of data to spot bargains. The 53 ZIP Codes where they are most densely clustered offer cheap housing. The median single-family home price in these areas is $345,400, based on Redfin data—around a fifth below the national level. Rents, however, are 3% below the national median.

Investment returns are enticing in these lower-cost neighborhoods because landlords are able to charge tenants high rents relative to what they have paid for the property. The rental income on a home in Converse, Texas, may yield 8%, compared with 6% for a median-price U.S. home.

Regular home buyers find it tough to compete with these deeppocketed investors. Corporate landlords are willing to pay in cash and to buy homes that aren't in great shape. It is easier and faster to sell to an investor than to a first-time buyer who needs time to arrange financing and might try to negotiate on price if a house needs repairs.

Home prices have risen quickly in these neighborhoods. Values in the 53 ZIP Codes increased 64% on average over the past five years, compared with a 48% rise nationally, based on Redfin data.

Tenants may get squeezed when Wall Street landlords move in. Median rents in the Zip Codes rose 30% over the past five years, compared with 23% gains for the U.S. overall, according to Zillow data. It isn't clear whether big investors led these increases or if they were drawn to neighborhoods where housing costs were already rising fast.

The silver lining is that homeowners get a lift when deep-pocketed investors come knocking. An influx of Wall Street investors creates a new pool of buyers, and they can improve the value of the local housing stock if they fix up dilapidated homes. A University of Texas study found that although corporate landlords extract higher rents, they invest in better street lighting and security measures that can lower neighborhood crime rates.

But homeowners face tradeoffs. If corporate landlords decide to cash in—say, if rent growth doesn't meet the expectations plugged into their models—a spike in new for-sale listings can put pressure on asking prices. After a lot of activity during the pandemic, investors flipped from being net buyers of U.S. family homes to selling more than they purchase, data from John Burns Research & Consulting show.

They may be taking advantage of record-high home prices to realize profits, but in some cases, rising interest rates forced them to sell. Last year, landlord VineBrook Homes needed to raise cash to meet its debt obligations and sold a chunk of its portfolio. In one Milwaukee ZIP Code, VineBrook was behind nearly a third of all home listings in the area. To quickly unload properties, the company cut prices by 17% on average from the original asking price, data from Parcl Labs show.

That isn't a big deal when U.S. home prices are still rising. But if investors were to head for the door in a weak housing market, they could undercut regular sellers and put pressure on prices.

The recent performance of multifamily apartments shows what can happen when a large number of residential units are in the hands of investors. U.S. apartment values have fallen 20% since rates first rose in early 2022. Oversup--ply played a role, but apartment prices have been volatile because institutional investors own a much bigger share of the U.S. apartment inventory than family homes, and they react differently to changes in the cost of debt than regular homeowners, who typically lock in their mortgage rate for 30 years.

First-time buyers don't like to compete with Wall Street investors when they try to get on the property ladder. Existing owners might not like the volatility they bring to home prices either.

—*Carol Ryan*