Single-Family Market Rents and Institutional Investors

Rent increases for single-family (SF) detached residential property units accelerated during the COVID-19 pandemic. The market demand and supply trends contributing to rising rents—and particularly the role and impact of institutional investors in SF rental markets—have become topical due to affordability concerns.

**Increased Demand for Detached SF Rentals**

CoreLogic, a financial services company, reported that the demand for more living space or living in lower density areas grew relative to the available supply of SF properties among families quarantined during the COVID-19 pandemic. The report observed that the growth rate of rents for detached SF properties departed from the growth rate of rents for attached properties (e.g., duplexes, townhomes, row houses, condominiums) beginning in March 2020. By February 2021, rents for detached properties increased 6.5% year-over-year compared to the 0.9% year-over-year rent increase for attached properties. (By April 2022, annual rents for detached and attached properties grew at more similar rates—13.5% and 13.7% year-over-year, respectively.)

The National Multifamily Housing Council reports that the demand for SF rentals has risen over the past decade, resulting in more than 33% of all renter households living in SF rental units by 2019. The council also reported on the demographic characteristics of renters who generally prefer SF units. In contrast to more traditional (apartment) renters consisting primarily of young singles without children, approximately half of SF renters were likely to be couples (with or without children). Single parents also prefer SF rentals over apartments. Some SF renters are also likely to do more remote work and want amenities typically associated with suburban communities.

In addition, qualifying for a mortgage may have been more difficult for some households, possibly increasing competition for SF rentals and putting some upward pressure on SF rents. Various studies show that some SF renters, particularly those ages 25-40, may not have been able to purchase homes due to a lack of accumulated savings sufficient for either a down payment or to pay down debts to satisfy mortgage underwriting standards. In some cases, the qualified mortgage rule may have limited the ability of would-be first-time homeowners—particularly those with consumer debt—to benefit from the historically low mortgage rates. (For more information, see CRS In Focus IF11761, *The Qualified Mortgage (QM) Rule and Recent Revisions*, by Darryl E. Getter.) Despite upward rent pressures, some households may still have had sufficient income to select from a wide range of rental opportunities and, therefore, may have been willing to achieve the American dream lifestyle—often regarded as owning a suburban or outer-suburban SF home—by renting SF units.

**Decreased Supply of SF Rentals**

The supply of available SF units—either for rent or for home purchase—has grown more slowly due to at least three factors. First, the total stock of U.S. housing grew more slowly. Although it grew at an average annual rate of 1.7% from 1968 through 2000, the U.S. housing stock grew by an annual average rate of 1% in the past two decades and only 0.7% in the past decade—an outcome contributing to an underbuilding gap, discussed in a report funded by the National Association of Realtors. Next, CoreLogic reported that baby boomers stayed in their homes for a median of 13 years longer than the previous generation did, further reducing the inventory of units that can be sold or rented. In addition, the costs of both construction materials and labor have doubled from 2001 to 2019, according to the Joint Center for Housing Studies of Harvard University. The National Association of Home Builders also attributes rising regulatory costs as a factor limiting housing supply. Such regulatory costs include local and state regulations; impact fees, which are assessed to pay for public services; and recent tariffs placed on softwood lumber shipments, which affect SF construction costs. Should these factors cause SF property inventories available for purchase or rent to decline (measured in terms of months’ supply of units for sale), housing costs are likely to rise.

**Institutional Investors in SF Markets**

In June 2021, the Urban Land Institute (ULI) reported that small-scale investors own 97% of the SF rental inventory, meaning that the share of institutional investors would be 3%. (ULI does not provide a definition of small-scale investor in terms of number of units owned, but it uses a definition of more than 2,000 units to define institutional investors.) CoreLogic defines mom and pop landlords as small investors who own 10 or fewer SF properties, which is the definition used in this In Focus. There is no consensus whether investors owning between 10 and 2,000 SF rentals should be considered intermediate or large.) Institutional investors may consist of publicly traded corporations as well as other types of business structures, such as private equity funds or real estate investment trusts (REITs), which are organized to invest money on behalf of other investors (e.g., pension funds, university endowments, insurance companies, and private individuals). A REIT is a real estate company that receives certain tax exemptions if it meets certain restrictions, such as owning predominantly real estate assets.

Historically, institutional investors have represented a small share of the SF rental market, and their activities have been concentrated in certain locations and markets. For example,

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following the 2008 foreclosure crisis—particularly in hard-hit areas such as the sunbelt (e.g., California, Florida, Arizona, Nevada) and rustbelt (e.g., Ohio, Michigan) regions—REITs and other institutional investors increased their investments in distressed SF properties (e.g., bank-owned properties that have been through the foreclosure process due to mortgage defaults, and properties with tax liens due to owners’ failures to pay property taxes). Because distressed properties are difficult to appraise, and clearing any surviving lien titles may take several months, purchasing foreclosures with mortgage loans can be a lengthy process, that is, if interested buyers can find lenders willing to originate mortgages for this purpose. Institutional investors can quickly raise cash, and cash purchases can result in lower sale prices, waived appraisals, and reduced settlement times.

As tenants demonstrated a willingness to renew and enter into longer leases, the buy-to-rent investment strategy grew more attractive to institutional investors. Furthermore, institutional investors may benefit as landlords due to economies of scale, referring to increased volumes that lower the average cost per transaction. For example, maintenance and upkeep are cheaper per unit for large numbers of properties. Some institutional investors may also adopt proptech (property technology), the use of digital big data and automated intelligence technologies to identify amenities highly valued by tenants, estimate the costs of various property improvements, estimate cash flows (rents) generated by properties, automate the leasing process, and automate property management tasks. These efficiency benefits may also enhance profitability.

Institutional investors have also adopted parallel investment strategies in other markets. As the number of foreclosed properties declined, for example, some institutional investors adopted build-for-rent strategies, which consist of detached SF rentals (generally three or more bedrooms) and provide similar amenities as those in new communities built for homeowners. Institutional investors also invest in the parks established for manufactured homes (MHs). MHs are factory-built homes that can be transported in multiple sections and meet the safety standards set after June 15, 1976, by the U.S. Department of Housing and Urban Development (HUD). MHs typically are less expensive than site-built homes, making them a viable affordable housing option for low- and moderate-income (LMI) households. Clusters of MHs form communities on land parcels. As is the case for site-built SF units for rent or purchase, rents in MHF communities are affected by land shortages.

Do Institutional Investors Decrease or Increase the Supply of SF Units?

Critics assert that institutional investors reduce the supply of SF units for purchase by first-time homebuyers. As previously discussed, the ability to quickly raise cash for all-cash purchases makes institutional investors more attractive to sellers over individuals who need mortgage financing. (For example, even if a buyer making a higher bid chooses a federally guaranteed mortgage to purchase a distressed property for use as a primary residence, the property must still satisfy HUD minimum property standards at closing when delivered to the borrower, which may impose additional costs on sellers.) However, to the extent institutional investors’ activities are likely to result in smaller inventories of SF units available for purchase, they also result in increasing the overall supply of available SF rentals. Institutional investors also have the ability to renovate numerous older homes or those in serious disrepair to satisfy minimum (or even exceed) safe housing building code standards. By contrast, extensive home renovations may be more financially draining for some LMI households and, in some cases, offset any financial wealth gains frequently associated with homeownership.

Do Institutional Investors Facilitate Affordable Housing?

Critics assert that institutional investors charge excessive rents particularly if they own most SF rentals in a particular location. Institutional investors may also contribute to the displacement of LMI residents when establishing SF communities in traditionally underserved neighborhoods, arguably for the benefit of higher-income renters, and, therefore, reduce the supply of affordable SF rentals. However, even though rental units provided by institutional landlords do not specifically target LMI renters, whether rents are excessive is unclear, especially when tenants are willing to pay premiums for amenities that small investors may not provide consistently, such as property maintenance by professionals. Furthermore, in light of recent rising mortgage rates, renting from institutional landlords may still be less expensive for some families relative to SF homeownership.

Current federal programs that promote affordable housing objectives do not provide explicit financing incentives for either small- or large-scale investors enticed by profitable opportunities in SF rental markets. For example, federal loan guarantee programs for SF mortgages are largely limited to acquiring owner-occupied principal residences rather than secondary homes or investment rental properties. The current system of federal subsidies used to promote affordable housing (e.g., mortgage guaranty programs, low-income housing tax credits, new markets tax credits, opportunity zones) typically encourages large investors to develop affordable rental opportunities in LMI areas, oftentimes in the form of attached units such as apartments. Moreover, the Federal Housing Finance Agency, the primary regulator of Fannie Mae and Freddie Mac, restricted those agencies’ financing activities in SF rental markets in 2018 after determining that it was unnecessary for them to provide liquidity to large investors. Therefore, the ability to promote SF rental opportunities for LMI renters may be challenging if institutional investors do not currently rely upon financial support provided by federal subsidies or federally regulated institutions. If, however, the current trend of rising supply-side costs persists, institutional investors could decide to incorporate federal subsidies into their business strategies, which would then oblige them to adopt a sharper focus on supporting affordable housing policy goals.

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