
Institutional Investment in Housing Market

Benefits of Homeownership

- Homeownership impacts fertility rate
- Homeownership affects the ability to participate in democracy

“Unless reversed, young people will be forced into a lifetime of rental serfdom. The assets that drove middle-class stability, wider social benefit, and subsidized comfortable retirements, will likely not be available to them. Property remains key to financial security: Homeowners have a median net worth more than 40 times that of renters, according to the Census Bureau. Shoving prospective homeowners into the rental market not only depresses their ambitions, but it also forces up rents, which hurts poorer households and even solid minority neighborhoods”

- Joel Kotkin and Wendell Cox

Institutional Investors

Definition: Entity that makes investments on behalf of someone else. Examples include pension funds, mutual funds, insurance companies, university endowments, hedge funds, Real Estate Investment Trusts (REIT's)

“Institutional investors are reshaping local housing markets and making it more difficult for first-time homebuyers to purchase a home.”

- HUD Secretary Fudge

Current Housing Market

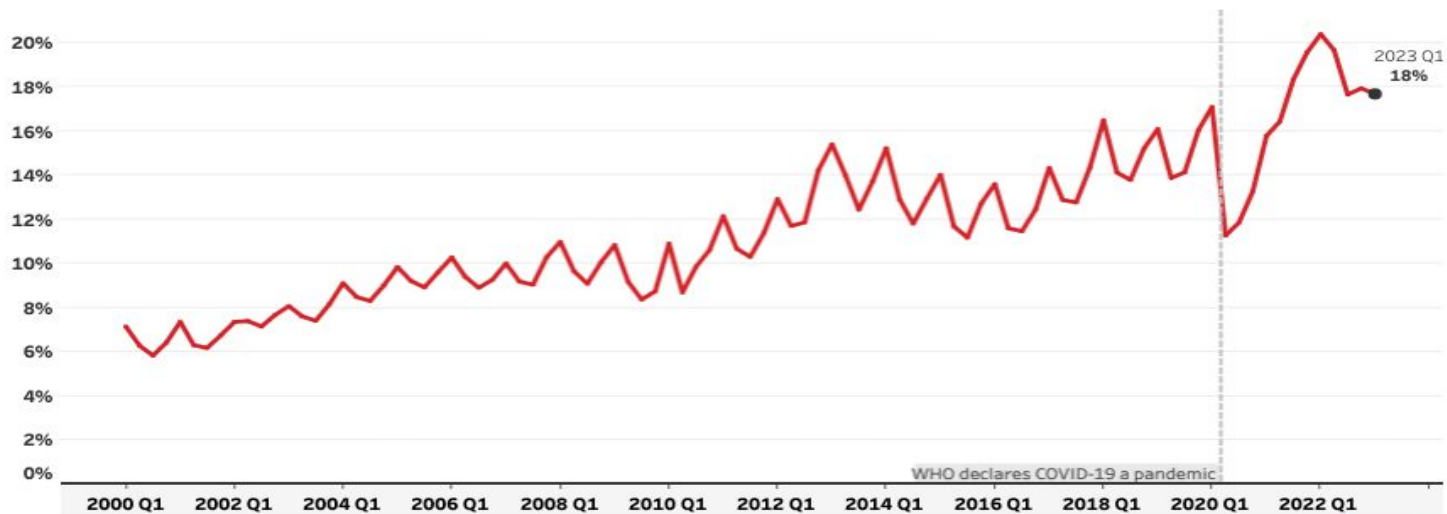
Significant shift in the residential property market in recent years.

Investors bought **17.6%** of homes purchased in the first quarter of 2023

National: Investor Market Share

Metro: National Metric: Investor Market Share

Definition of **Investor Market Share**: The percentage of total home sales in which an investor was the buyer



Source: Redfin analysis of county records

REDFIN

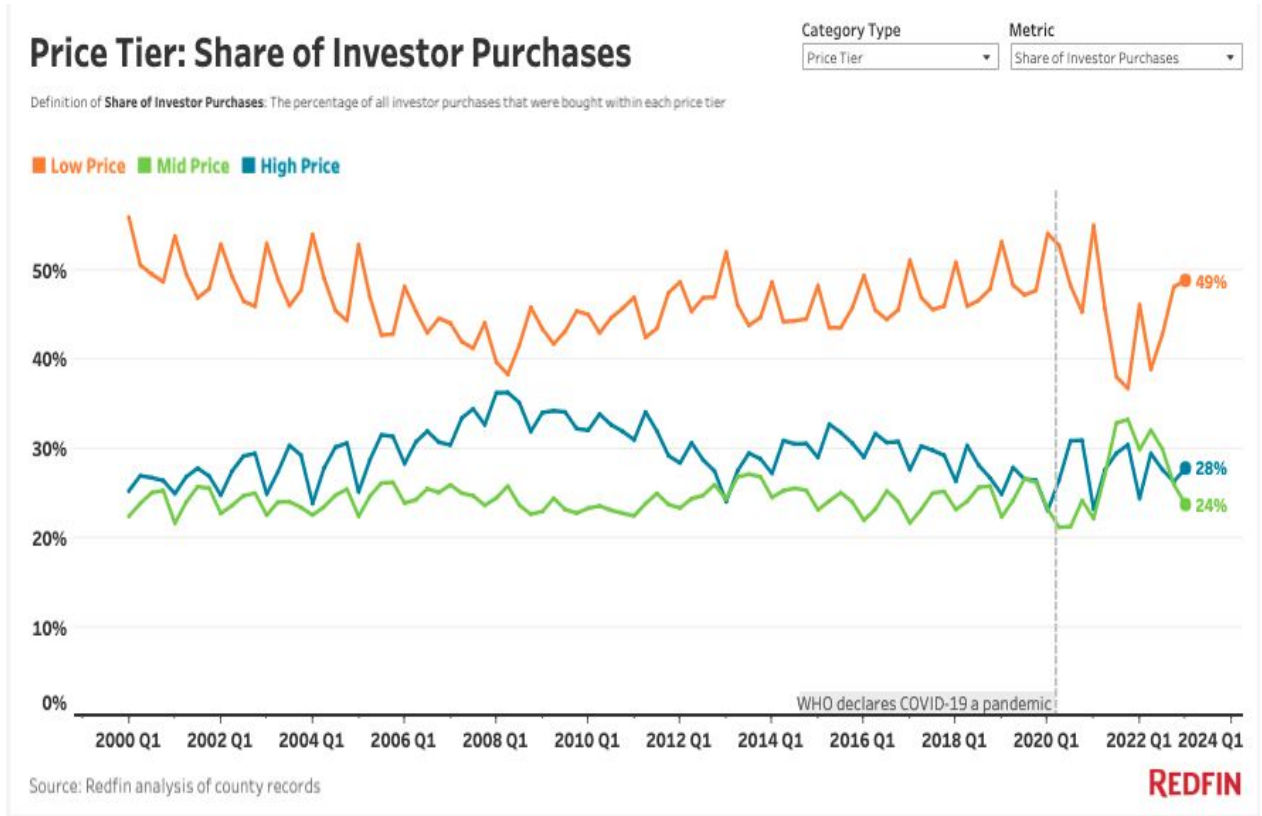
Redfin

Current Housing Market

Low-priced homes made up nearly half (48.7%) of investor purchases in the first quarter, the highest share in two years

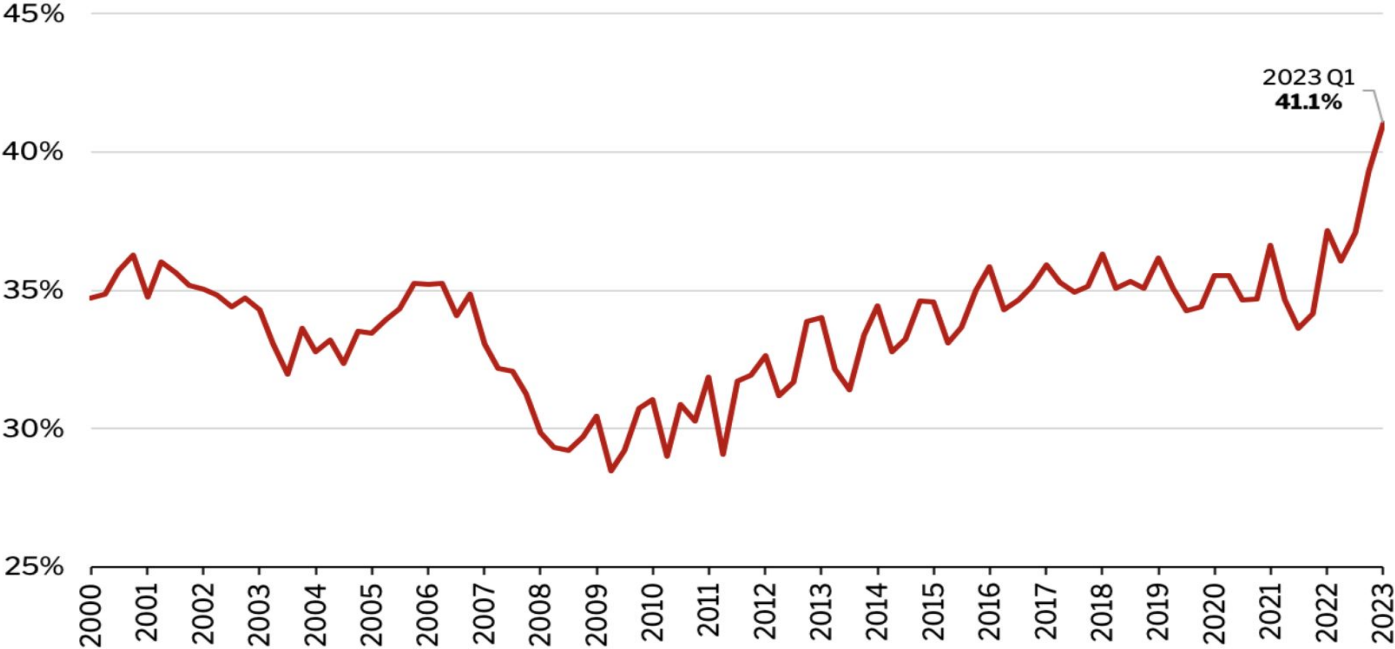
Meanwhile, mid-priced homes represented about one-quarter (23.6%) of investor purchases, the lowest share in two years

High-priced homes made up 27.7%, little changed from the prior several quarters



Current Housing Market

2 in 5 Homes Bought by Investors Are Starter Homes
Homes with 1,400 or fewer square feet as share of investor purchases



Current Housing Market

- Rents have been raised by an average of 23% nationwide in the last year, and up to 40% in some locales
- Numerous new fees and “re-tenanting” have become more common
- 1 in 5 homes is bought by an investment firm (in some areas, it’s 1 in 3), and homeownership rates are dropping
- Last year, 15% of families looking for a home found they either could not afford a home, or there were no homes to buy
- In Utah, year-over-year increases in average home prices are 20%
- 1 in 5 Utahns are severely cost burdened – pay more than 50% of income on rent

Current Housing Market

- Last year, five states [saw](#) the highest percentage of investor purchases: Georgia (33%), Arizona (31%), Nevada (30%), California, and Texas (both 29%).
- These investment firms continue diminishing available inventory of houses that may otherwise be obtainable for younger, middle class households.
- This can lead to a kind of negative feedback loop where people cannot afford to buy because they are getting priced out, but because [rent is incredibly high \(and expected to keep going up\)](#), people cannot save enough money to get into the market even if rates do fall again.

Utah Housing Market

- Mega-investors accounted for an average of 0.5% of all purchases from 2012-2016 with very little variance between years, they accounted for over 1.4% of all purchases in 2021 and 1.75% of all purchases in the available data from 2022

Increasing housing stock can stabilize prices and rents but the problem remains if those units are bought by investment firms.

Two-Prong Approach

Two-Prong Approach

1. Restrict sales of housing to corporations and investment firms
2. Devise ways to incentivize corporations and investment firms to sell housing stock they already own to ordinary buyers

Proactive Solutions

Restrict Sales

Current practices:

- The [Biden administration](#) has introduced new regulations on cash-only real estate purchases, limiting sales of FHA-insured and HUD-owned properties to large investors and proposing higher taxes for investor buyers.
- [Cincinnati](#) is buying homes that might be bought by large investors, and selling them to owner-occupants
- [California](#) prohibits bulk sales of foreclosed homes
- Nevada has considered rent controls
- Allow municipalities to require a percentage of homeowner dedicated units up to 50% with zoning change for increased density projects

Texas Proposed Legislation

- [HB1056](#) - Aims to require financial institutions or investment firms that lease homes to register with the comptroller's office. The comptroller's office would then compile and maintain a searchable registry of that information on its website as an attempt to create more transparency about what these firms are investing in and how much.
- [HB1057](#) - This bill aims to prohibit investment firms from buying a single-family home until after they have been on the market for 30 days. The bill states "a contract entered into in violation of this section is voidable by the seller at any time before the contract is fully executed."

Proactive Solutions

Restrict Sales

Ireland

- Blocked investment firms from buying large chunks of housing stock
- Imposed special taxes on the purchase of more than 10 properties
- 50% of new developments go to owner occupiers
- Other locales have set a numeric limit on a # of units that can be owned by a corporation

Toronto

- Restrictions placed on the bidding process

Reactive

Decrease Corporate Owned Housing Stock

Make holding onto the housing stock burdensome for the corporate owner.

- Higher property tax tiers for corporate owners
- Change tax law to make certain expenses and taxes non-deductible
- Devaluation of property investments owned by investment firms for tax purposes
- Rent increase caps will deny corporate owners exorbitant profits

Reactive Steps

Decrease Corporate Owned Housing Stock

Current practices:

- [California](#) fines vacant property owners for failure to keep up the property
- [Canada](#), [Australia](#), and [New Zealand](#) impose special taxes on foreign owned properties

Salt Lake County Regional Development Office

- The development office is working with Lincoln Land Institute's Center for Geospatial Solutions to gather data on institutional investment in housing market from County Assessor's Office
- Data may be available by April 2024.

Utah Solutions

- Require institutional investors to register with the state if they are acting as a landlord. This will allow us to collect data related to institutional investors in our state
- \$20,000 towards down payment, enlarge this to apply for all housing stock, not just new construction
- Easier access for first time home buyers to qualify for mortgages
- Enable counties to assess higher tax rates on properties that are left vacant for extended time period.

Questions?
