Rutgers CLiME
Center on Law, Inequality and Metropolitan Equity

Investor Buyers, A Brief Primer

Katharine Nelson, Senior Research Fellow

Investor Buyers: History and Context

Housing markets rebounded after the 2007-2009 housing crisis, but homeownership rates never did. Research explains this by the rapid spread of investor buyers into housing markets following the foreclosure crisis. Large investors bought significant numbers of properties that were foreclosed on, at very low prices, frequently converting single-family (1-4 units) into rental properties. They often acquire properties in low-income and moderate-income neighborhoods. [1]

Coming out of the foreclosure crisis, these investor buyers created a new industry around large-scale single-family rental, and have been increasingly active in rental markets generally. These limited liability companies (LLCs), or "corporate landlords", have reshaped the legal landscape of rental ownership, in part because they limit investor liability.[2] Research shows they are less likely to take care of the properties, causing them to fall into disrepair or remain vacant.[3] They are also associated with higher rents and higher rates of eviction.[4] Meanwhile, several reports document that the largest among them (e.g.; Invitation Homes, Equity Residential) are making enormous profits even as we experience a profound housing affordability and eviction crisis.[5]

---

[1] Lambie-Hanson, Li and Slonkosky, "Leaving Households Behind: Institutional Investors and the U.S. Housing Recovery", Federal Reserve Bank of Philadelphia, 2019. Fields, et al. "The Emerging Economic Geography of Single-Family Rental Securitization". Federal Reserve Bank of San Francisco, January 2016.
[2] See recent Congressional testimony on *How Private Equity Landlords are Changing the Housing Market*: https://www.banking.senate.gov/hearings/how-private-equity-landlords-are-changing-the-housing-market
[3] Travis, Adam. The Organization of Neglect: Limited Liability Companies and Housing Disinvestment, *American Sociological Review*, 84:1, 2019.
[4] Raymond, Elora L and Duckworth, Richard and Miller, Benjamin and Lucas, Michael and Pokharel, Shiraj, Corporate Landlords, Institutional Investors, and Displacement: Eviction Rates in Singlefamily Rentals (2016-12-01). Available at SSRN: https://ssrn.com/abstract=2893552. See also: https://www.businessinsider.com/how-corporate-landlords-helped-drive-the-covid-evictions-crisis-2021-3
[5] https://ourfinancialsecurity.org/2021/03/32315/; https://www.populardemocracy.org/news/publications/billionaire-corporate-landlords-exacerbating-california-s-housing-crisis

In some markets, homebuyers and community developers now face steep competition from investor buyers. The institutional and limited liability arrangements enable these investors to access credit at significantly lower interest rates, privileging them in the marketplace and allowing them to offer higher bids for the same cost. Furthermore, research shows these investor buyers are systematically going after more affordable homes.[6]

Few local jurisdictions are tracking investor purchases, but the attention is rapidly gaining greater attention. In Los Angeles, they now own more than ¾ of rental properties.[7] Most research on this subject has focused on California, the Southwest (Phoenix), and portions of the south (Atlanta, Florida) where the foreclosure crisis was particularly pronounced. There is less work on this in the Northeast, so far. New Jersey has a particularly long timeline to foreclosure, which along with the looming eviction crisis, helps explain local interest.

<u>What do we do about it?</u>

Cities have significant control over REO and foreclosure sales. Cities can find ways to encourage homeowners or responsible investor owners to buy properties in lieu of investors.

1) **Set up auctions to give preference to homebuyers and nonprofit developers over investor buyers.** *In Oakland California, more than half of all foreclosures from the Great Recession were purchased by investors. The City recently passed an ordinance whereby if an investor wins an auction, homebuyers or nonprofits 45 days to submit competing offers. If the home is a rental, the tenants living there could win by matching the investor's offer. Other would-be buyers must offer more than the investor.*[8]

---

[6] Desiree Fields Testimony, before the Senate Committee on Banking, Housing, and Urban Affairs: https://www.banking.senate.gov/hearings/how-private-equity-landlords-are-changing-the-housing-market

[7] https://www.saje.net/wp-content/uploads/2021/03/Final_A-Just-Recovery-Series_Beyond_Wall_Street.pdf

[8] https://www.latimes.com/business/newsletter/2020-11-10/buying-foreclosed-homes-california-law-business;

There is limited ability to intervene in private sales transactions. Investors often pay in cash, and often buy in bulk, going after multiple properties at once. However, the city can find ways to encourage owners to rehabilitate and maintain distressed properties, and to provide high quality housing.[9]

2) **Vigilant and proactive code enforcement:** impose fines and criminal penalties for repeat property maintenance code offenders.
3) **Require, and enforce, registration of all landlords**
4) **Impose vacant properties fees on units that remain vacant after a 6-month or 1-year period.**

An important first step is to identify who the owners are, and how concentrated the market is. This information can be the basis for a local set of actions or policies.

5) **Conduct a local study of LLC buyers and corporate landlords.**

Finally, I have not seen any research on these new investor landlords and rent control. This would definitely be an area for attention.

---

https://www.nbcbayarea.com/news/local/report__investors_buy_nearly_half_of_oakland_s_foreclosed_homes/1920445/

[9] Treuhaft et al. *When Investors Buy Up the Neighborhood: Preventing Investor Ownership from Causing Neighborhood Decline*. Community Investments, Spring 2011, 23(1).