Would Blocking Private Equity From

Buying Homes Really Fix the Housing Shortage?

A recent bill in Congress proposes clamping down on companies scooping up single-family residences. But a housing expert says it'll take more than that to help the little guy.

Text by

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It is becoming increasingly harder to own a home in America. That is, unless you're private equity. In recent years, companies have been buying up the nation's housing supply unchecked, with Wall Street becoming a leading buyer in the single-family market. According to a report from Stateline, nearly 22 percent of single-family home purchases were made by corporate entities within the past year. CNBC claims that by 2030, institutional investors will own nearly 40 percent of the nation's single-family rentals.

Last week, U.S. Senator Jeff Merkley and Washington Rep. Adam Smith introduced a new bill into congress designed to curb this practice, which has been shown to cause a downturn in homeownership. Called the End Hedge Fund Control of American Homes Act, the bill would require these large funds to sell off at least 10 percent of their single-family properties over the course of a decade, and disincentivize these companies from purchasing new single-family homes by applying a tax equal to 50 percent of any home's fair market value. Proponents of this bill include the Private Equity Stakeholder Project, among other consumer advocacy and national affordable housing advocacy groups.

To better understand the scope and impact of private equity's hold on the housing market and the potential effects of the new bill, Dwell spoke with Geoff Smith, executive director of the Institute for Housing Studies at DePaul University, an applied research center based at the Business School at DePaul.

Dwell: When did private equity companies start taking an interest in single family homes, and why?

Geoff Smith: It really started in the wake of the Great Recession and housing crisis after 2008, when there was a lot of distressed housing out there—properties that had gone through foreclosure, or were in the foreclosure pipeline, and were essentially available at a discount to anyone interested in buying them. At that point, there was not a lot of demand from individual owner occupants, because the economy was bad. There wasn't a lot of mortgage credit available. Stepping in to fill that demand was this institutional investor entity that had a lot of capital available and thought it was a good opportunity to deploy it to purchase distressed single family homes.

How popular a practice has this become, and where is it headed if it goes unchecked?

Previously, when you look at this type of investment in real estate, it was more commonly seen on the commercial side—larger buildings, either rental or commercial. Around 2010, when this was first becoming more common, the question was, Is this going to still be around in 10 years? There previously wasn't this much single-family real estate available. One of the challenges with having a big portfolio of single family homes is the cost, and the big challenge of owning rental properties is property management: scattered site situations are less efficient and more costly to manage. But as these properties became available, technology also evolved to make that type of property management more efficient.

It became clear that this type of industry had some sustained power. On the demand side, there were a lot of renters who wanted to live in single family homes who couldn't access homeownership.

In my mind, the practice has evolved because the real estate market has changed—the initial wave of properties that were available through the foreclosure pipeline eventually all made their way through, and there wasn't an immediate new way to access new inventory in an affordable way. Recently there have been some stories and data showing that [private equity] were more active during the pandemic, taking advantage of affordability opportunities for distressed homeowners in certain parts of the country. So I think that's what drives evolution in many ways—the acquisition strategy, where there's opportunity to acquire inventory at a relatively affordable price point and in pockets where they can be concentrated so they can make the property management more efficient.

What impact does this practice have on tenants, communities, and the real estate market overall?

It has an impact across the board. When you have a business entity controlling a substantial portion of the real estate market in a place, and the owners are not based locally—they're in New York or some global financial hub—and the decisions about rent, maintenance, and management are being made by algorithms that try to maximize profit, that raises concerns about the condition, affordability, and eviction processes of those properties. Also, when you have a substantial share of the housing stock owned by one owner or a few small number of owners, they control the housing market in those neighborhoods. And that has implications for availability and affordability and quality of housing in those places.

The way proponents are framing the bill speaks to the housing shortage issue. Does this have any merit?

I don't have a definitive answer. The fact that these guys are owning a property for an extended period of time isn't necessarily crazy, because that's oftentimes how it goes. But if somebody multiplied that times 10, say, and it was concentrated in a certain area, that's where you might see that mass corporate ownership affect turnover and the availability of existing housing for homebuyers. Of course, there are other factors for the housing shortage, like building enough housing and the lack of availability of mortgage credit or the cost of mortgage credit. There are a lot of different inputs.

"When a substantial share of the housing stock is owned by a few, they control the housing market in those neighborhoods. And that has implications for availability and affordability and quality of housing in those places."

—Geoff Smith

Why does the bill matter? Why do we need some federal legislation around this?

If you look at the types of efforts to regulate this industry, to this point, they're largely by local or municipal governments trying to improve code enforcement so that building quality doesn't deteriorate, or to create rental registries so that you know who the landlord is, and that you know that there are X number of properties in your neighborhood owned by private equity. There hasn't really been a lot of national regulation. This is the first national proposal. That's really important, because if you look at the types of places where a lot of these properties are owned, they're not big cities, they're suburbs, and the suburbs have limited capacity to regulate global capital. To the extent that the federal government has the most capacity—the most resources to potentially intervene to regulate national entities like these guys—is important.

You say something that I think is really important: We can pass this bill, but there are so many other reasons why it's difficult to buy a home—high cost of access to mortgage capital, etc. What effect could this bill have on the real estate market, and what else would need to change in order to get these properties into individual homeowners' hands?

It sounds like the goal is to have these large institutions divest their portfolios within 10 years, and that the concept is that all those homes will go into the hands of individual buyers. I don't know that there is enough mortgage credit, today at least, to create the opportunity to buy a home. It's not particularly available for a lot of modest-income homebuyers because high interest rates are making homeownership less affordable. Obviously, if you add inventory, that might help the affordability side in terms of the tight inventory, even though the demand is not as strong as it was a year and a half ago. But if you flood the market with properties, and you didn't then make credit cheaper and more available (therefore increasing demand), you might unintentionally cause a disruption in the housing market.

But it really depends on how the bill might be rolled out; things get proposed all the time and don't go anywhere. I do think that the bigger question is how do you go about adding homes to the housing market, and who is going to buy those properties? It sounds like the intent is really to create homeowners, which I think is great. But you need more than just a bill like this to make sure that happens.

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