Institutional investors an issue in Calif. housing

By Matt Levin, CalMatters

Astronomical prices are forcing a rising share of California families to postpone buying a house. As a result, the state's record-low homeownership rate has been a boon to one growing segment of California's housing market: single-family home rentals.

Between 2005 and 2015, the number of owner-occupied homes in California shrunk by nearly 64,000 units, according to the Public Policy Institute of California. Meanwhile the number of renter-occupied homes increased dramatically. California now has 450,000 more homes used as rentals than it did a decade ago. Compare that to the 1990s, when the number of rented homes grew by less than 120,000 while the state added 700,000 homes owned by the people who live in them.

The rising tide of single-family rentals has renewed attention on who actually receives the rent payments that nearly 2 million Californians make each month. Lawmakers and first-time homeowner advocates have been scrutinizing a relatively new form of landlord: private investment firms that snapped up thousands of homes during the foreclosure crisis and now rent them out. With nearly one in four California homes now purchased in all-cash, these well-financed institutional investors have also been blamed as unfair competition against families bidding on starter homes.

So how much are institutional investors impacting California's housing prices? The data says not so much now.

Institutional investors accounted for less than 2 percent of California single-family home sales last year.
Typically the term "institutional investor" refers to private

investment firms that buy dozens of residential properties with the explicit aim of generating a steady income stream through rentals. Often they invest the money of wealthy individuals and public pension funds, like those established for California state workers and teachers.

The best example is Blackstone, a publicly traded Wall Street firm that barrelled into the country's single-family home market in the depths of the Great Recession in the late 2000s. Through its residential investment-focused subsidiary, Invitation Homes, Blackstone is now the largest owner of single-family homes nationwide. In California, they own about 13,000 homes.

But firms such as Blackstone have stopped buying wide swaths of California homes. According to the real estate data firm ATTOM Data Solutions, which defines institutional investors as entities that buy 10 or more homes in a given year, institutional investors accounted for less than 2 percent of the state's single-family home and condo sales in 2017.

That's a pretty steep drop from as recently as 2012, when institutional investors accounted for about 7 percent of sales.

Why the decline? California no longer has a glut of cheap houses that can be easily gobbled up in foreclosure auctions. A sustained economic recovery and a lack of construction of new housing has sent housing prices skyrocketing. It's now too expensive for institutional investors to buy lots of California homes. Blackstone's Invitation Homes bought only 82 California houses last year.

"The low inventory and homeownership rates are good (for investors) if they own the property—it means more renters," says Daren Blomquist, senior vice president at the real estate data firm ATTOM. "But it's bad if they're trying to acquire more properties."

Those all-cash offers beating out would-be homebuyers aren’t coming from large investment firms anymore. Wealthy “mom-and-pop” landlords—families that can afford to buy another house and rent it out as an investment—now dominate the single-family rental market. Among all single-family rentals nationally, about 80 percent are owned by individuals that rent out just one or two homes, according to ATTOM.

But aren’t institutional investors keeping houses off the market—and doesn’t that drive up prices?

Institutional investors aren’t keeping enough homes off the market statewide to blame them wholesale for California’s astronomical housing prices. But in certain local markets—especially in areas hit hard by the foreclosure crisis, such as the Central Valley and Inland Empire—it’s impossible to pretend they have no influence.

Among cities with at least 100,000 residents, Sacramento has seen the most properties sold to institutional investors since 2007, according to ATTOM’s data—about 6 percent of all homes sold in the city during that time span. San Bernardino and neighboring Rialto have seen the largest share of their housing stock bought by institutional investors, at roughly 10 percent. Firms have largely stayed away from Bay Area cities, where the foreclosure crisis was less acute and where housing prices are among the most expensive in the country.

“We do not believe our activity impacts prices at any level,” a spokeswoman for Blackstone subsidiary Invitation Homes wrote in response to questions.

Institutional investors have targeted the typical starter home in these cities—three bedroom, two bath houses at a price point that a few years ago could have been afforded by younger families. So in some cases, would-be first-time homebuyers are now renting in places they may have bought just a few years ago.

Still, investment firm ownership in these areas is much lower than in Atlanta or Phoenix, where they've made nearly one in four home purchases. And young families are more likely to rent homes from smaller landlords.

Reports of institutional investors making all-cash offers on California homes caught the attention of state Sen. Ian Calderon, D-Whittier, when he was attempting to move out of his apartment and purchase his first house last year. While the 32-year-old lawmaker acknowledges that institutional investors don't own a large chunk of California's housing stock, he says he's concerned their influence is yet another hurdle for young homebuyers to overcome.

"I just want to be able to have more information about these firms, and ultimately I want to advantage first-time homebuyers," said Calderon. "I want to make sure that people aren't getting screwed."

Multiple attempts by Calderon to impose more transparency on institutional investor activity while blunting their ability to make all-cash offers have not gone far in the Legislature. Two years ago, a bill that would have forced homeowners to wait 90 days before selling to large institutional investors failed to clear both chambers with that provision intact.

Last year, a bill that would have required investors who own more than 100 properties in California to register with the state and provide detailed information on their activities again failed to reach the governor's desk. Caldeorn says there's a good chance that bill will be resuscitated this year.

The California Apartment Association, which represents landlords across the state for both multifamily and single-family units, has opposed much of Calderon's legislation, arguing that much of the information it seeks is available in public stock exchange filings. That's mostly true, but that only applies to publicly traded firms, and the data is not in the most accessible format.

Landlords also says Calderon’s bill doesn’t address the root cause of the problem.

“The bottom line here is about supply,” said Debra Carlton, lobbyist for the California Apartment Association. “There’s just not enough housing to go around so you end up in these unfortunate situations where people can’t buy and can’t afford a place to rent.”