WINTER 2023

EVIDENCE MATTERS

Transforming Knowledge Into Housing and Community Development Policy

INSTITUTIONAL INVESTORS IN HOUSING

IN THIS ISSUE

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PD&R

Message From PD&R Leadership

Evidence Matters signals HUD's commitment to synthesizing research on important policy issues. By offering a timely recap of research and a deep dive into communities, *Evidence Matters* helps shape public debate on housing, communities, and neighborhoods. These articles summarize the problem for readers and highlight interventions to explain how local actors are responding to housing challenges. In short, *Evidence Matters* helps readers understand policy issues and solutions.

In this issue, we look at the role of institutional investors in the housing market. The pool of housing investors includes many types of players in the market. Some investors own just a handful of properties. Their housing investments may be essential to their livelihood or part of a personal financial strategy. Other investors own many more units, and those units often are concentrated in a single housing market. Institutional investors are the largest players in this group. These are investors who own more than a thousand housing units in the single-family market. Their holdings often are scattered across several rental markets rather than concentrated in a single market. And, although they make up only a fraction of the single-family housing market, they are playing an increasingly large role in it.

By focusing on the role of these institutional investors, this edition of *Evidence Matters* invites readers to better understand a subtle but important shift in the housing market. On one hand, these investors help preserve the single-family housing stock for renters. As they purchase properties, especially in the suburbs, institutional investors create rental opportunities for households to access suburban neighborhoods. Investors often have access to capital that enables them to renovate and repair these homes, ultimately improving the quality of the housing stock.

At the same time, however, the growth in institutional investors creates additional barriers to homeownership for low-income and first-time homebuyers. Unrestricted access to capital enables these investors to compete on the housing market by outbidding individual buyers or offering more attractive terms to sellers. Keeping their investments as rental units prohibits other buyers from purchasing those units for owner occupancy. Moreover, the concentration of property in the hands of a smaller number of owners may reduce competition in the rental market.

The growing presence of institutional investors in the single-family housing market is an important topic to consider as we advance the policy goals of the Biden-Harris administration. We need to understand the types of investors entering the housing market and how the continued financialization of housing drives these investments. We need to understand the ways in which communities respond to these shifts in the housing market. We need to understand how these investments reshape opportunities available to first-time homebuyers, especially in communities of color. I hope that this edition of *Evidence Matters* contributes to these critical policy discussions.

— Brian J. McCabe, *Deputy Assistant Secretary for Policy Development*

Editor's Note

This issue of *Evidence Matters* explores the role and influence of institutional investors in the housing market. Institutional investors are increasing their footprint throughout the country, particularly in the Sun Belt states, so analyzing the impacts of these investors, including their impacts on low- and moderate-income communities and communities of color, is important. With the finding that large corporate investors tend to concentrate their single-family rentals in low-income neighborhoods that are historically nonwhite, it is vital that we undertake a critical analysis of this trend as we work to reduce the racial wealth gap, increase homeownership opportunities, and support the growth of intergenerational wealth.

The lead article, "Institutional Investors Outbid Individual Homebuyers," examines the relatively recent entry of institutional investors into the single-family housing market, their effect on renters and prospective homebuyers, and ways to combat their negative impacts. The Research Spotlight article, "Institutional Investors: A Local Perspective," looks at institutional investor activity in two metropolitan statistical areas: Dallas-Fort Worth-Arlington and Houston-The Woodlands-Sugar Land. The In Practice article, "Investments in Affordable Housing," highlights three local organizations that are working to preserve affordable housing in Atlanta, Louisville, and Milwaukee. Through strategies such as a loan fund, acquisition and rehabilitation, lease-to-purchase programs, downpayment assistance, and homebuyer education, these organizations play an important role in their communities and serve as useful models for others.

The research and data highlighted in this issue of *Evidence Matters* are particularly timely as institutional investors shift the dynamics of the nation's housing market. We hope readers gain knowledge and a better understanding of this emerging topic. We welcome feedback at **www.huduser.gov/forums.**

— Heidi Joseph, *Director of the Research Utilization Division*

FEATURE

Institutional Investors Outbid Individual Homebuyers

HIGHLIGHTS

- **Institutional and other large corporate investors own an increasing share of single-family homes, taking properties off the market for individual homebuyers and putting upward pressure on home prices and rents.**
- **Institutional investors have concentrated their purchases regionally (in the Sun Belt) and in particular neighborhoods (typically low-income, historically nonwhite and disinvested areas).**
- **Federal, state, and local governments can combat the negative impacts of institutional investors, often in partnership with nonprofit and other social-purpose organizations that can purchase single-family homes for individual buyers or help those buyers purchase them directly.**

Institutional and large corporate investors represent a growing percentage of owners of single-family homes. Institutional investors are single, nonindividual entities such as limited liability companies (LLCs), limited liability partnerships (LLPs), and real estate investment trusts (REITs) that have portfolios of 1,000 or more housing units. Unlike traditional, smaller-scale "mom and pop" landlords, these investors often can outbid prospective individual homeowners with all-cash offers and fast-track their purchases by waiving common steps in the buying process that would be too risky for individual buyers to skip. Institutional investors have various motivations; some may seek to hold onto the home as a rental unit and maximize its profitability; others may be interested primarily in capital gains from home value appreciation in the medium term; and still others, referred to as trading platforms, may seek to scale purchases in markets where they can profit from quickly reselling properties without investing in improving them. When institutional and other large corporate investors concentrate their activity in a local market — particularly within a specific neighborhood — the effects can be significant. In addition to preventing individual buyers from purchasing homes, investor activity lowers the overall availability of homes for purchase and raises prices for the remaining homes in the market. And these practices can have material impacts for renters in investor-owned properties, including additional costs and fees and issues related to unit conditions and maintenance.

Institutional Investors in the Single-Family Market

An estimated 39 percent of rental housing units in the United States are single-family dwellings.[1] Because larger households tend to prefer the size of single-family homes, roughly 41 percent of the renter population lives in single-family homes.[2] In recent years, institutional

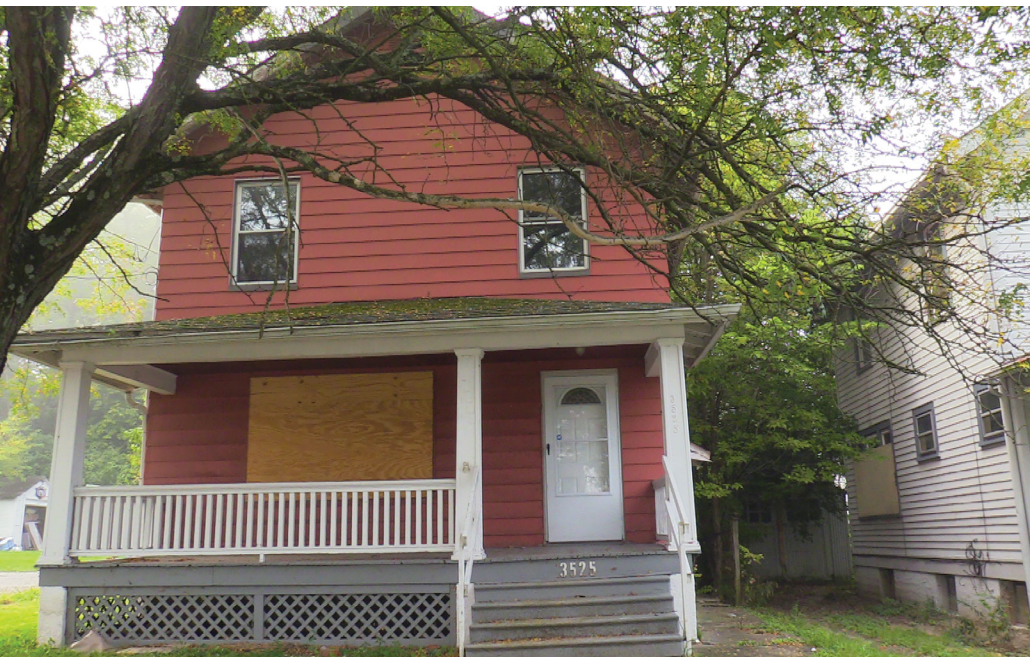


Photo courtesy of Port of Greater Cincinnati Development Authority

Investor activity in the single-family rental market increased rapidly during the COVID-19 pandemic.

and other large investors have been actively expanding their share of the single-family rental market. Between 2011 and 2017, these investors purchased more than 200,000 single-family homes at a total cost of $36 billion.[3] Investor purchases surged again during the COVID-19 pandemic: in the first quarter of 2022, investor purchases of single-family homes averaged 28 percent per month, compared with 19 percent the previous year and the average of 16 percent between 2017 and 2019.[4] This rate is much higher in certain areas of the country, reaching up to 67 percent in Lincoln County, Mississippi; 63 percent in Van Buren County, Iowa; and 52 percent in Tarrant County, Texas, in 2021.[5] Large portfolio investors (those holding more than 100 properties) drove this growth.[6] According to CoreLogic, institutional investors purchased 3 percent of homes sold in 2021, three times their typical share in prior years.[7] Research by MetLife Investment Management suggests that, as of August 2022, institutions owned approximately 700,000 single-family rental homes.[8]

The increase in institutional investors began during the Great Recession, when housing prices dropped precipitously and credit tightened.[9] During the financial crisis, investors bought foreclosed properties, often at a discount, with institutional buyers joining the usual cash investors.[10] As hundreds of thousands of homes went into foreclosure, the federal government sought to stabilize housing prices by increasing demand for the homes, which it accomplished largely by creating incentives for private investors to make bulk purchases.[11] In his study of Atlanta, Immergluck notes that in 2012, "a combination of public policy and Wall Street financialization" accelerated the rise of activity by institutional private-equity investors in the single-family rental market.[12] Banks and other lenders, as well as the government-sponsored enterprises (GSEs), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), had amassed large numbers of foreclosures on their portfolios that they wanted to offload. In addition, because the foreclosure crisis left many potential homebuyers wrestling with lower credit scores and tighter lending standards, private households were less likely to qualify to buy homes even at lower price points, thereby increasing the demand for rentals.[13] Immergluck documents how federal policymakers argued that foreclosed properties should be converted to rentals.[14] Noting the large number of foreclosed properties and the nation's growing demand for rentals, a Federal Reserve white paper stated, "Reducing some of the barriers to converting foreclosed properties to rental units will help redeploy the existing stock of houses in a more efficient way."[15] Notably, says Immergluck, this approach represented a missed opportunity to help homebuyers purchase homes while prices were low.[16] Fannie Mae and Freddie Mac both held pilot sales in 2012 to facilitate the sale of real estate owned properties and mortgage notes to investors who would operate them as rentals.[17] The Federal Housing Administration (FHA) also expanded its sales of distressed mortgage notes to investors through its Single-Family Loan Sales Program, also known as the Distressed Asset Sales Program.[18]

Institutional investors had long avoided the single-family market because of the challenge of managing dispersed properties.[19] Digital technologies, however, including improved data and analytics, have transformed the single-family rental market.[20] Technology has made both purchasing and managing dispersed rental properties more efficient and profitable. Corporate owners can use digital tools to acquire property quickly and other tools to screen applicants, accept payments, manage maintenance requests, and gather data on rental markets.[21] Fields and Vergerio point out that these tools allow institutional investors to monitor real estate markets and move quickly to identify, evaluate, and make offers on properties that fit their criteria, and they allow landlords to analyze costs at scale to identify inefficiencies and maximize profits.[22] Goodman and Golding point out that institutional investors, with their access to capital, may be better able to efficiently renovate properties after purchase than individual homebuyers and therefore perform a useful function in improving the condition and quality of the housing stock.[23]

As noted previously, investor activity grew rapidly during the COVID-19 pandemic, and its ongoing effects may further shape market dynamics.[24] However, the recent rise in interest rates and financing costs appear to have slowed the growth of investors' purchases (although not their market share, because investors may be better able to weather interest rate increases than individual buyers). Investor purchases fell for two straight quarters following their peak in the third quarter of 2021.[25] At the same time, as higher mortgage rates have driven away individual homebuyers from the purchase market, homebuilders have increasingly turned to institutional investors to finance "build-to-rent" developments.[26] Elora Raymond of Georgia Tech says that the relevant data point will be the rate of return on the investment in single-family homes compared with alternative investments. Any time the return rate favors single-family homes, investors will buy them.[27]

Although different types of investors have different motivations, market conditions have aligned at certain points to make single-family homes an attractive option for many investors (see "Institutional Investors: A Local Perspective," p.12).[28] Some investors may primarily be interested in purchasing and holding properties to collect rental streams and fees.[29] This investment strategy becomes particularly attractive when price-to-rent ratios fall.[30] Other investors may be attracted by the opportunity for capital gains, focusing on purchasing properties that they anticipate will appreciate in value over the medium term before being resold.[31] Still others may want to profit from a quick resale of their purchase. This type of investor, sometimes called a trading platform, profits by using automated processes and cash offers to move quickly and bypass common fees such as those for appraisals, real estate agents, and financing before reselling their purchases.[32]

Investors vary in the markets and properties they target, but, historically, most of the growth in investor purchases has been in the Sun Belt (the southern and western regions of the United States), which, not coincidentally, experienced high foreclosure rates during the financial crisis.[33] For example, in 2013, 12 percent of single-family homes in Atlanta were purchased as rentals compared with 1 to 2 percent of single-family purchases nationwide from 2012 to 2014.[34] As the housing market recovered from the financial crisis, investors were no longer able to purchase foreclosed properties in bulk. However, according to Immergluck, Sun Belt properties remained attractive to investors because of the region's relatively lax tenant protections and the unlikelihood that local governments would pass rent control laws.[35] The largest investors often use revenue strategies that require operating at a large scale for profitability; as a result, they seek out areas where they can acquire many properties.[36] In

Large corporations own nearly 1 in 5 detached single-family rental homes in Phoenix.

some cases, regional concentrations have intensified; for example, in the third quarter of 2021, large investors purchased 43 percent of homes for sale in the Atlanta metropolitan area and 39 percent of those in the Phoenix-Glendale-Scottsdale area.[37] Overall, large corporations own nearly 1 in 5 of the approximately 41,000 detached single-family rental homes in Phoenix.[38]

Within regions, researchers find that large corporate investors that are buying single-family rentals and rent-to-own units tend to concentrate their purchases at the neighborhood level, primarily in "low income, historically non-white neighborhoods that have suffered from disinvestment, but where gentrification or real estate cycle dynamics predict medium term price increases."[39] A study of the single-family home rental market in Atlanta from 2010 to 2015 found that investors concentrated their purchases in older neighborhoods with high numbers of Asian, Latinx, and Black residents, and a study of Los Angeles County found that investor activity was higher in neighborhoods with relatively low home prices and a high proportion of Black residents.[40] In their study, which included some cities outside of the Sun Belt, Dowdall et al. note that investor purchases in Philadelphia, Jacksonville, and Richmond are also concentrated in areas with below-average homeownership rates where prospective homebuyers face barriers to mortgage financing.[41]

Some variations of this general trend exist. For example, the large corporate trading platforms that specialize in buying and quickly reselling homes at a profit purchased homes in areas with smaller populations of people of color overall, and, after the pandemic began, these platforms reduced their purchases in places with a high risk of housing instability.[42] Private equity investors have increased their ownership share in manufactured home communities, where, in many cases, residents own their homes but rent the land underneath their homes. Because moving their homes is difficult and costly, most of these homeowners are essentially trapped in their current location, even as the landowners raise their rents.[43] Esther Sullivan of the University of Colorado, Denver, notes that, as with the housing bubble and bust in the 2000s, manufactured housing is a bellwether for investors' strategies; the return-maximizing strategies that private equity firms have employed in manufactured home communities — including raising rents (in some cases as high as 50 to 60%), charging new fees, and cutting costs for expenses such as maintenance — are the same ones that investors in the rental market for single-family homes have used.[44]

Impact on Prospective Homebuyers and Renters

Because investors tend to concentrate their purchases in particular markets,

Investors can outcompete individual buyers with cash offers or by waiving processes such as inspections.

Photo courtesy of Port of Greater Cincinnati Development Authority

Port of Greater Cincinnati Development Authority purchased 194 single-family homes from an institutional investor to sell to individuals.

even particular ZIP Codes or neighborhoods, they can significantly affect home prices, rents, and options for prospective homebuyers.[45] It even matters, says Raymond, "not just what percentage of units, but what percentage of three-bedroom units [for example], or in a particular school zone," are investor owned, "because that's how tenants are searching" — by a particular housing type and location.[46] Investor activity reduces the inventory of homes available for potential owner-occupants to purchase, especially homes at lower price points.[47] These lower-priced homes are the types of homes that first-time homebuyers and groups that historically have been excluded from homeownership are likely to target. Researchers indeed observe declines in the number of homeowners and homeownership rates in areas with high investor activity.[48]

Because institutional investors buy with cash and sometimes bypass appraisals and other typical processes, institutional investors can use these advantages to outcompete prospective homebuyers to purchase available homes.[49] Investors also might be more willing to waive inspections — an attractive advantage for sellers of homes needing repairs, which are not uncommon in the markets investors target.[50] These purchases not only take units off the market but also apply upward pressure on the prices of the homes that remain for sale. One study found that from 2007 to 2014, the increase in institutional investors "contributed to 9 percent of the increase in the real house price growth…."[51]

These dynamics contribute to the demand for the very type of rental properties that institutional investors seek. The management strategies investors employ to maximize profit, in turn, affect the costs and conditions for renters. Institutional investors use property managers, whom tenants sometimes perceive as removed and impersonal.[52] To maximize cash flow, investors systemize the transfer of responsibilities for maintenance and other expenses, such as landscaping, to tenants, or, in some cases, charge fees for these services as well as for pools, automatic door locks, and utilities, among others.[53] Investors also can use leases to shift obligations onto tenants. Semuels reports that a standard lease from one corporate owner required tenants to replace air filters monthly and assume responsibility for sewer and sink backups and broken glass. Another owner charged tenants for any maintenance staff trips to the unit.[54] Some companies reportedly charged tenants aggressively to increase earnings, deducting the expenses from tenants' security deposits. According to Semuels, between 2014 and 2018, one company increased such charges by more than 1,000 percent.[55]

A study of Milwaukee rental data found that rentals owned by LLCs were more likely to be in disrepair, both because LLC investors tend to buy in areas where dilapidated properties are concentrated and because the properties deteriorated more rapidly under LLC ownership.[56] Travis writes that, because identifying the precise owners of LLCs is so difficult and because of the liability protections that LLC status offers, both tenants and local governments may be less able to hold these owners

accountable for tenant mistreatment and poor housing conditions.[57] Institutional investors are also more likely than other landlords to evict tenants. In their study of Fulton County, Georgia, Raymond et al. find that owners of 15 or more single-family home rentals were 8 percent more likely than smaller portfolio landlords to file eviction notices, a trend that holds even when controlling for neighborhood and property characteristics.[58] Seymour and Akers similarly find that large investors were more likely than small- or medium-sized landlords to file eviction notices and execute evictions.[59]

In addition to the immediate impacts — outcompeting potential homebuyers as well as increasing costs and worsening conditions for renters — investment activity has long-term impacts. Dowdall et al. note that when the five largest institutional investors sell their units, they often sell them in bulk to other investors (61% of homes they sell), thereby keeping them in the rental market. This way, investors may significantly alter the tenure mix of a neighborhood over the long term.[60]

Immergluck notes that because investors bought properties at the nadir of the market, they, rather than low- and middle-income homebuyers, have benefited from the recovery in housing values since the foreclosure crisis.[61] As a result, these low- and middle-income households missed out on what could have been transformational gains in household wealth.

Combating the Negative Impacts of Institutional Investors

Various nonprofit and social-purpose institutions can compete with investors to buy single-family homes and preserve them as affordable rentals or resell them at affordable prices. Some policy interventions offer these institutions a competitive advantage in purchasing, such as first look programs that give nonprofits or tenants the first opportunity to purchase a property that is for sale before it is listed on the open market.

Nonprofit organizations in several markets acquire and rehabilitate properties that they then offer at affordable prices to individual homebuyers. (See "Investments in Affordable Housing," p. 24, for a discussion of the Atlanta Neighborhood Development Partnership, Inc.; Housing Partnership Inc. in Louisville, Kentucky; and Acts Housing in Milwaukee, Wisconsin, all of which attempt to help preserve affordable single-family homes for individual buyers.)

Another entity that can compete with institutional investors to protect single-family homes for individual purchasers are social-purpose REITs. Social-purpose REITs are institutional investment funds that seek returns for investors while also

Photo courtesy of ROC USA/Mike Bullard

ROC USA is a nonprofit organization that has helped 303 manufactured home communities convert to resident ownership, giving residents control over their communities.

upholding a stated social mission, such as preserving affordable housing. One such example, the Housing Partnership Equity Trust (HPET), founded in 2013 as institutional investors were snapping up huge numbers of foreclosed properties, focuses on purchases that preserve naturally occurring affordable housing in multifamily properties. HPET provides investment capital and partners with nonprofit housing providers to manage the purchased housing. HPET's investments adhere to its core mission to meet social impact goals such as setting affordable rents and serving specific high-need populations. The average rent at HPET properties is affordable to households earning less than 60 percent of the area median income. HPET also encourages environmental sustainability at its properties by tracking and reducing energy usage, seeking to improve cash flow (and investors' returns) by reducing operating costs rather than transferring costs to renters. HPET has also kept vacancy rates low to increase profitability. The REIT has nearly 3,000 units in 14 properties across 7 states.[62]

Like HPET, community land trusts (CLTs) can acquire properties, often those that need some rehabilitation, to preserve affordability. In some cases, CLTs have first look options to buy distressed properties. The Oakland Community Land Trust, for example, was founded in 2009 to purchase foreclosed properties and preserve them to provide affordable homeownership opportunities for residents of Oakland, California. The trust used federal Neighborhood Stabilization Program funding, but it was often outbid by investors' cash offers. However, the land trust has recently increased its capacity and garnered additional resources. In 2019, the Oakland City Council awarded the trust $12 million to buy properties. The land trust continues to acquire properties, including single-family homes, to preserve as affordable housing options in Oakland and prevent further displacement of low-income households.[63]

In addition to the immediate impacts — outcompeting potential homebuyers as well as increasing costs and worsening conditions for renters — investment activity has long-term impacts.

Investor activity poses unique challenges for residents of manufactured home communities, who typically own their units but rent the land on which they are sited.[64] Investors buying the land might seek to either profit from rental streams and fees or resell the land at a markup. ROC USA is a nonprofit organization that helps manufactured home communities become resident-owned land trusts in which the residents collectively own the land. ROC USA has helped convert 303 manufactured home communities representing 21,386 households to resident ownership.[65] Only a small percentage of manufactured home communities are resident owned, but those that are can protect themselves from excessive rent hikes and other measures that a profit-seeking institutional landlord might impose.[66] Sullivan notes that residents of these communities also have more control to invest in needed infrastructure that institutional investors might neglect.[67]

Government Efforts To Mitigate Negative Effects

Although HUD has few tools to limit investor purchases, it has attempted to prioritize individuals and nonprofits in the sale of FHA-insured and HUD-owned properties. HUD has an Office of Asset Sales to manage properties that fall under its ownership — for example, homes secured with FHA-insured reverse mortgages after a borrower dies with no surviving nonborrowing spouse. HUD has prioritized owner occupancy for the sales of these properties. In June 2022, HUD auctioned approximately 1,450 properties that had secured reverse mortgages that were available exclusively to mission-driven nonprofits and state and local government buyers, thereby excluding commercial investors. HUD expects that these buyers will preserve or expand affordable homeownership opportunities or, in some cases, affordable rental options. The effort follows a December 2021 sale in which HUD reserved half of the auctioned properties for nonprofits and local governments; these entities purchased 814 mortgage notes.[68]

The Biden Administration also has announced steps to increase sales to individuals and nonprofits through Second Chance Claims Without Conveyance of Title (CWCOT), a process by which loan servicers sell foreclosed FHA-insured properties without first conveying them to HUD. In May 2022, FHA created a special listing period during which governments, nonprofits, and owner occupants have an exclusive opportunity to purchase CWCOT properties.[69] Similarly, the Federal Housing Finance Agency has directed GSEs and HUD to extend the "first look" period during which nonprofits and owner occupants can purchase their real-estate owned properties. HUD will also expand its outreach efforts to educate eligible buyers about the process for purchasing HUD- and enterprise-owned properties.[70] Dowdall et al. recommend forming an intergovernmental task force to investigate and address the rise of institutional investors as well as other changes to the housing market to ensure a coordinated approach across federal agencies and with federal, state, and local governments.[71]

Julia Gordon, who now serves as HUD's assistant secretary for housing and FHA commissioner, says that Fannie Mae, Freddie Mac, FHA, and state housing finance agencies should improve and expand financial products that help individual homebuyers purchase and renovate the types of properties that investors might target. Further, she says, because most homeowners might not be able to manage a renovation effort, state and federal entities should help nonprofit organizations acquire and renovate properties.[72] The National Community Stabilization Trust (NCST) is a nonprofit that administers "first look" and other distressed properties sales programs for local nonprofit; government; and mission-aligned, for-profit property purchasers that renovate these properties and return them to productive use, including through resale to owner occupants. NCST has found that, although investors of all types commonly renovate distressed homes for homeownership, its mission-aligned purchasers were particularly effective at facilitating homeownership in minority neighborhoods.[73] Independent researchers have also found that rehabilitating distressed properties strengthens neighborhoods by boosting the values of neighboring properties.[74]

More generally, the Biden Administration, including HUD, is mitigating the potential negative impacts of investor purchases of single-family homes through policies designed to increase the supply of affordable housing and support for homebuyers. The administration also is pursuing measures to increase the supply of manufactured housing and two- to four-unit properties by expanding FHA and GSE financing and encouraging localities to reform zoning to eliminate barriers to housing construction. To bolster manufactured homes as a source of affordable housing, HUD recently announced a proposed rule to increase and index loan limits for FHA insurance for personal property loans to purchase manufactured homes.[75] Federal funds can also support local efforts to activate alternatives to investor ownership; in Portland, Oregon, the Portland Housing Bureau used community development block grants in partnership with private developers, nonprofits, and state and local governments to purchase and rehabilitate Oak Leaf Mobile Home Park and prevent it from being sold and repurposed, which would have displaced its residents.[76]

State and local responses, including robust rental registries and enhanced tenant protections, can also mitigate the increase and impacts of corporate investment. Landlord-tenant laws, zoning, and tax incentives are among the local factors that can make institutional investment more or less likely in a particular area.[77] Generating accessible data on the extent of investor activity can help localities understand how to respond. The Federal Reserve Bank of Minneapolis created a tool to track investor ownership in the Twin Cities region. The tool also estimates and categorizes investor size to analyze investors' differing strategies.[78] State governments can require LLCs to disclose their ownership so that tenants and local officials can hold them accountable for problems with their properties.[79] Sullivan also notes that no central database currently exists to track the extent or location of institutional investment in manufactured home communities. Such a database could help researchers and policymakers understand and analyze trends and take action to protect tenants.[80]

To bolster manufactured homes as a source of affordable housing, HUD recently announced a proposed rule to increase and index loan limits for FHA insurance for personal property loans to purchase manufactured homes.

Community or tenant opportunity to purchase policies or laws, such as the District of Columbia's District Opportunity to Purchase Act and Tenant Opportunity to Purchase Act, can give local governments and tenants a first option to purchase rental properties before they are listed on the market.[81] Dowdall et al. suggest that another trigger could be significant differences in assessed value and purchase value, which could then require an independent appraisal to ensure that investors cannot take advantage of homeowners by paying significantly less than what their properties are worth.[82]

Dowdall et al. recommend that state and local governments or quasi-governmental and nonprofit entities purchase single-family portfolios and resell the properties to individual homeowners. They offer the example of the Port of Greater Cincinnati Development Authority, which purchased 194 single-family homes owned by a single institutional investor to resell them, ideally to current renters receiving support from community-based partners.[83] Landlord licensing, rental registries, and code enforcement can help mitigate abuses or negligence by landlords or property managers, who may be remote.[84] Local governments can also adopt tenant protections against evictions, such as just cause eviction and right to counsel laws.

Conclusion

Institutional and other large-portfolio investors have substantially increased their activity in single-family rental markets over the past decade, and they have the potential to continue to extend their holdings. These investors often outcompete prospective

homebuyers for relatively low-cost homes and depress the homeownership rate in areas where they concentrate their purchases. For renters, the investors' profit model results in high rents, fees, and the transfer of responsibilities traditionally shouldered by landlords to renters. Nonprofits, CLTs, and social-purpose REITs can compete to keep homes available to individual homebuyers. Federal, state, and local governments can create opportunities for nonprofits to buy properties, and they can take measures to mitigate the conditions of renters through tenant protections and information sharing to hold large landlords accountable. EM

[1] William Maher. 2022. "Single-family Rental Housing – Institutional Opportunities," RCL CO.

[2] Claire Gray. 2021. "An Overview of Single-Family Rentals," National Multifamily Housing Council.

[3] Alana Semuels. 2019. "When Wall Street Is Your Landlord," *The Atlantic,* 13 February.

[4] Joint Center for Housing Studies of Harvard University. 2022. "State of the Nation's Housing," 12.

[5] National Association of Realtors. 2022. "Impact of Institutional Buyers on Home Sales and Single-Family Rentals," 11.

[6] Ibid.

[7] Tim Henderson. 2022. "Investors Bought a Quarter of Homes Sold Last Year, Driving Up Rents," *Stateline.* 22 July.

[8] Jeff Adler. 2022. "Institutional Investment in Single-Family Rentals Is on the Rise, Reports Yardi Matrix," Yardi Matrix.

[9] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky. 2019. "Leaving Households Behind: Institutional Investors and the U.S. Housing Recovery."

[10] Francesca Mari. 2020. "A $60 Billion Housing Grab By Wall Street," *New York Times,* 4 March.

[11] Semuels.

[12] Dan Immergluck. 2022. *Red Hot City: Housing, Race, and Exclusion in Twenty-First Century Atlanta,* Oakland: University of California Press, 161.

[13] Immergluck, 161–2, 164.

[14] Immergluck, 163–5.

[15] Federal Reserve. 2012. "The U.S. Housing Market: Current Conditions and Policy Considerations," 1.

[16] Immergluck, 171.

[17] Semuels.

[18] U.S. Department of Housing and Urban Development. n.d. "Distressed Asset Stabilization Program Enhancements."

[19] Mari.

[20] Desiree Fields and Manon Vergerio. 2022. "Corporate Landlords and Market Power: What does the single-family rental boom mean for our housing future?" 1.

[21] Tech Equity Collaborative. 2022. "Sold to the Highest Bidder: How Tech is Cashing In on the American Dream."

[22] Fields and Vergerio, 12.

[23] Laurie Goldman and Edward Golding. 2021. "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire.*

[24] Elora Raymond, Yilun Zha, Ethan Knight-Scott, and Leah Cabrera. 2022. "Large corporate buyers of residential rental housing during the COVID19 pandemic in three southeastern metropolitan areas," Federal Reserve Bank of Atlanta.

[25] Lily Katz and Sheharyar Bokhari. 2022. "Investor Home Purchases Slump 17% From Pandemic Peak as Interest Rates Rise."

[26] Committee on Financial Services, U.S. House of Representatives. 2022. "Memorandum: Where Have All the Houses Gone? Private Equity, Single Family Rentals, and America's Neighborhoods," 23 June; Joe Burns. 2022. "Housing stress creates opportunity for Build-to-Rent," finLedger, 13 October.

[27] Interview with Elora Raymond, 30 September 2022.

[28] Emily Dowdall, Ira Goldstein, Bruce Katz, and Benjamin Preis. 2022. "Investor Home Purchases and the Rising Threat to Owners and Renters: Tales from 3 Cities."

[29] Mari.

[30] Pedro Gete and Michael Reher. 2018. "Mortgage Supply and Housing Rates."

[31] Raymond et al.

[32] Mari; Raymond et al.

[33] Joint Center for Housing Studies of Harvard University, 12; Henderson.

[34] James Mills, Raven S. Molloy, and Rebecca E. Zarutskie. 2015. "Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?" Federal Reserve Board.

[35] Immergluck, 170.

[36] Fields and Vergerio, 2.

[37] Committee on Financial Services.

[38] Andrew McIntyre. 2022. "Wall Street's Single-family Home Grab, Phoenix, Part 1," *Law 360.*

[39] Raymond et al.

[40] Committee on Financial Services.

[41] Dowdall et al.

[42] Raymond et al.

[43] Jim Baker, Liz Voight, and Linda Jun. 2019. "Private Equity Giants Converge on Manufactured Homes: How private equity is manufacturing homelessness & communities are fighting back."

[44] Interview with Esther Sullivan, 29 September 2022.

[45] Fields and Vergerio, 2–3.

[46] Interview with Elora Raymond.

[47] Mari.

[48] Dowdall et al.

[49] Fields and Vergerio, 22–3.

[50] Dowdall et al.

[51] Lambie-Hanson et al.

[52] Mari.

[53] Ibid; Semuels.

[54] Semuels.

[55] Ibid.

[56] Adam Travis. 2019. "The Organization of Neglect: Limited Liability Companies and Housing Disinvestment," *American Sociological Review* 84:1, 162.

[57] Ibid., 165.

[58] Elora Raymond, Richard Duckworth, Ben Miller, Michael Lucas, and Shiraj Pokharel. 2016. "Corporate Landlords, Institutional Investors, and Displacement: Eviction Rates in Single-Family Rentals," Federal Reserve Bank of Atlanta.

[59] Eric Seymour and Joshua Akers. 2021. "'Our customer is America': Housing insecurity and eviction in Las Vegas, Nevada's postcrisis rental markets," *Housing Policy Debate* 31:3-5, 534.

[60] Dowdall et al.

[61] Quoted in Mari.

[62] Housing Partnership Network. "About HPN" **(housingpartnership.net/hpet)**. Accessed 7 October 2022.

[63] James A. Crowder Jr., Chris Schildt, and Rick Jacobus. 2021. "Our Homes, Our Communities: How Housing Acquisition Strategies Can Create Affordable Housing, Stabilize Neighborhoods, and Prevent Displacement."

[64] U.S. Department of Housing and Urban Development, Office of Policy Development and Research. 2020. *Evidence Matters* Winter/Spring 2020.

[65] ROC USA. "Media Center" **(rocusa.org/media-center-2/)**. Accessed 7 October 2022.

[66] *Evidence Matters* Winter/Spring 2020.

[67] Interview with Esther Sullivan.

[68] U.S. Department of Housing and Urban Development. 2022. "HUD Announces First-Ever HUD-Held Single Family Note Sale (HVLS 2022-2) Exclusively for Mission-Driven Non-Profits and Units of State and Local Government," 12 April press release.

[69] White House. 2021. "FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply," 1 September statements and releases; U.S. Department of Housing and Urban Development. 2022. "Mortgagee Letter 2022-08: Expanding Affordable Housing Supply Through FHA's Claims Without Conveyance of Title (CWCOT) Process."

[70] Ibid.

[71] Dowdall et al.

[72] Julia Gordon. 2018. "The Dark Side of Single-Family Rental," *Shelterforce.*

[73] Andrew Jakabovics and David Sanchez. 2021. "Does a Nonprofit "First Look" Program Promote Neighborhood Stabilization? Examining Outcomes for REO Sales in Florida," In *Tackling Vacancy and Abandonment: Strategies and Impacts after the Great Recession* Center for Community Progress and the Federal Reserve Banks of Atlanta and Cleveland.

[74] Rohan Ganduri and Gonzalo Maturana. 2022. "Do Property Rehabs Affect Neighboring Property Prices?" SSRN Working Paper.

[75] U.S. Department of Housing and Urban Development. 2022. "Federal Housing Administration Proposes to Adjust Title I Manufactured Home Loan Program Loan Limits Annually," 18 October press release.

[76] U.S. Department of Housing and Urban Development. 2019. "In The Mix."

[77] Committee on Financial Services.

[78] Kim-Eng Ky, Libby Starling, and Tu-Uyen Tran. 2021. "New property-data tool reveals patterns of investor ownership in the Twin Cities area," Minneapolis Federal Reserve.

[79] Dowdall et al.

[80] Interview with Esther Sullivan.

[81] Dowdall et al., 15.

[82] Ibid.

[83] Ibid.

[84] Crowder Jr. et al.

Institutional Investors: A Local Perspective

HIGHLIGHTS

- Cash sales have become more prevalent in low-income ZIP Codes.
- Between 2017 and 2021, home prices have appreciated rapidly in ZIP Codes with a large investor presence. Conversely, income growth in these ZIP Codes has been modest.
- Some localities are starting to implement restrictions on institutional investment.

Home purchases by investors have garnered national attention as the inventory of homes for sale nationwide decreased precipitously from 2020 through the first quarter of 2022, the result of strong demand fueled by historically low mortgage interest rates. Commanding further attention was the emergence of bidding wars for homes between traditional homebuyers (including first-time and move-up buyers) and investors of all sizes, including iBuyers.[1] As the percentage of investor purchases increased, average home sales prices skyrocketed, making homeownership more expensive.

Investors typically have a competitive advantage over households because of their access and ability to pay in cash. Investors are also attracted to properties in various stages of disrepair. According to research from Laurie Goodwin and Edwin Golding, "most of the homes institutional investors buy need repair. And because of operational and financing advantages, these institutional investors can repair these properties more quickly and efficiently than an owner-occupant generally can."[2] Investors often have access to a line of credit, which allows them to expedite their transactions. Although investors may use a line of credit or some other financing mechanism, these transactions ultimately are recorded as cash sales. Because data on investor home sales are limited, cash home sales serve as a measure of investor activity. According to CoreLogic and the National Association of REALTORS®, during the first quarter of 2022, investors were responsible for approximately 60 percent of cash home sales nationwide.

Since 2017, investor purchases have been most prevalent in the Sun Belt. Of HUD's 10 Regions, Regions IV and VI recorded the most home sales transactions during the past year and had the highest number of cash home sales. Florida accounted for 37 percent of the 1.97 million home sales transactions in Region IV during the 12 months ending June 2022, of which 320,400 were in cash. Texas accounted for 72 percent of the 1.10 million home sales transactions in Region VI during the 12 months ending June 2022, of which 292,300 were in cash.

Types of Investors

To understand the effect of investors on home sales markets, researchers need to know the size, location, and composition of the purchases within their portfolios. Investors are categorized as small, medium, large, or institutional based on the number of units they own. In addition, the location of investors' purchases offers valuable insight into potential imbalances between the supply and demand for housing. Investor purchases can include several types of real estate, but for the purposes of this article, we focused on data from John Burns Real Estate Consulting that include only single-family detached homes.

Investors with portfolios containing one to nine units generally are considered small investors and typically consist of mom-and-pop investors: individuals who own and operate properties either through traditional leases or through popular platforms such as Airbnb and Vrbo. As of August 2022, single-family rental properties within small investor portfolios accounted for 80 percent of investor-owned homes nationwide. The percentage of small investor-owned homes exceeded the national level in several metropolitan areas throughout the Sun Belt, including Albuquerque and Myrtle Beach, at 88 and 90 percent, respectively, where home sales prices were well below the national average.

Medium investors, defined as investors with portfolios containing 10 to 99 units, held the second-highest share of investor-owned homes at the national level during August 2022, at 14 percent. The percentage of homes owned by medium investors exceeded the national level in Kentucky's largest metropolitan areas. In Lexington, medium investors accounted for 25 percent of investor-owned homes. Similarly, in Louisville, medium investors accounted for 23 percent of investor-owned homes. Investors in Kentucky were attracted to the state's lower-priced homes. The average home sales prices in the Lexington-Fayette and Louisville-Jefferson County metropolitan statistical areas (MSAs) were $280,400 and $260,900, respectively, during the 12 months ending July 2022, which was substantially lower than the national average home price of $401,900 during the same period.[3]

Investors with portfolios containing 100 to 999 units are defined as large investors. As of August 2022, single-family rental properties within large portfolios accounted for 3 percent of investor-owned homes nationwide. The share of large portfolios in the Sun Belt generally mirrors the national share, although the major metropolitan areas of Oklahoma City and Tulsa in Oklahoma recorded market shares of 8 percent and 7 percent, respectively. Large investor purchases in these markets were attributable in part to the much larger share of single-family homes in their

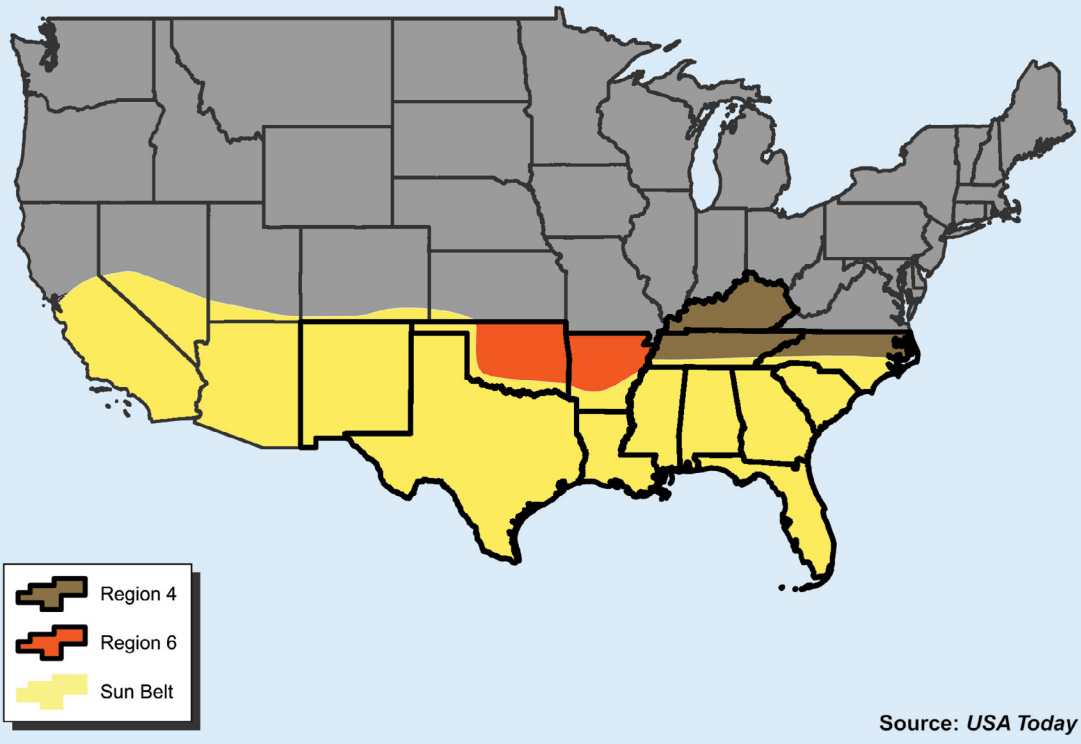
rental inventory. Single-family renter households account for an estimated 32 percent of the rental market at the national level.[4] By comparison, single-family renter households in Oklahoma City and Tulsa account for an estimated 48 percent and 43 percent of the rental market, respectively.

Institutional investors, defined as investors with portfolios containing more than 1,000 units, are nonindividual investors and can include limited liability corporations, limited liability partnerships, real estate investment trusts, and other entities.[5] As of August 2022, single-family rental properties within institutional portfolios accounted for 3 percent of investor-owned homes nationwide. Institutional investor portfolios remained relatively small by market share as of August 2022, but several notable exceptions exist. Shares of single-family rental homes owned by institutional investors in Atlanta, Georgia; Charlotte, North Carolina; and Jacksonville, Florida, in HUD Region IV were 21 percent, 16 percent, and 16 percent, respectively. Similarly, in HUD Region VI, Fort Worth, Dallas, and Houston recorded institutional investor-owned rates of 10 percent, 8 percent, and 8 percent, respectively. Among the markets exceeding the national average for institutional investment, all had a gross rental yield exceeding 7 percent.[6] At this rate of return, institutional investors can cover their costs and turn a profit despite rising inflation. Unlike other rental assets, which typically have longer lease terms, single-family rentals owned and operated by institutional investors are frequently offered with short-term leases that are more adaptable to rising costs.

Why Institutional Investors Are Buying Existing Single-Family Homes

Since the onset of the COVID-19 pandemic, institutional investors have significantly accelerated their purchases of existing single-family homes. Although institutional investors make up only a small share of the housing market, their purchases have significantly influenced local housing markets across the country. Moreover, the rising costs of purchasing developable land, acquiring construction materials and labor, and navigating regulations have hindered overall housing development in recent years. Minimum lot sizes, parking restrictions, and fees, along with zoning ordinances, have made infill

U.S. Sun Belt and HUD Regions 4 and 6



Source: *USA Today*

development prohibitively difficult, effectively limiting multifamily construction in many cities nationwide.[7] As developable land in high-demand areas has become scarcer, construction costs have increased.[8] The resulting rapid rise in home prices and rents has attracted institutional investors, who view housing as a good asset with which to diversify their portfolios. Rising home prices mean that the asset is appreciating, whereas rising rents lead to income gains from that asset, which is extremely attractive to investors.

Determining Factors for Institutional Investment

Although the market for single-family rental housing demonstrated less volatility than did the market for apartments during the COVID-19 pandemic,[9] trends in apartment vacancy rates and rents offer institutional investors important insights into potential rental demand within a market. Median price-to-rent ratios (the median home value divided by the median annual rent) also illuminate homebuying and rental investment decisions. Real estate investment decisions often employ price-to-rent ratios to identify areas that are ideal for owning rental property and determine how appealing a location might be for rental property investments. Price-to-rent ratios, housing appreciation, and home prices all factor into an institutional investor's decision to enter a market.

Along with market-specific indicators, demographic fundamentals influence real estate investment decisions. An increasing number of Americans are forming households, including younger age cohorts aging into household formation.[10] Strong population growth, particularly among people aged 34 to 44, is likely to fuel near-term demand for rental housing, with high home prices and mortgage rates. Markets with limited institutional investment activity tend to have slower population growth among key age cohorts associated with future demand. In the Chattanooga, Tennessee-Georgia MSA, overall population growth from 2010 to 2021 resulted primarily from an increase in the portion of the population at or near retirement age, generally defined as residents aged 60 and older. This age cohort increased annually by an average of 3,200, or 2.6 percent, during the period.[11] From 2010 to 2021, the number of residents under the age of 18 was virtually unchanged, declining by an average of approximately 40 annually. Similarly, during the same period in the Albuquerque, New Mexico MSA, the number of residents under the age of 18 declined annually by an average of approximately 1,900, or 0.9 percent. Residents aged 18 to 44 increased just 290, or 0.1 percent, annually during this period. Conversely, in the Charlotte, North Carolina-South Carolina MSA, where the number of single-family rentals owned by institutional investors is estimated at 26,900 units, or 16 percent of the single-family for rent market,[12] the population of residents aged 18 to 44 increased by an average of 36,950, or 3.4 percent, annually throughout the period.[13]

Many markets have unique structures that also affect institutional real estate investment decisions. In the Myrtle Beach-Conway-North Myrtle Beach, South Carolina-North Carolina MSA, an estimated 77.2 percent of the existing occupied housing is owner occupied.[14] Many of the homes for sale in the area are vacation and investment homes. Some of the most common investment properties in the city of Myrtle Beach are one-bedroom oceanfront condominiums and small vacation rentals near the beach, because one- and two-bedroom condominiums currently dominate the housing market. Many of these units are in investment condominium hotels, or "condo-tels," which are multifamily structures that often regulate the maximum number of units that a single purchaser can own. Furthermore, many of these existing structures already have onsite management services for a larger fee, often between 35 to 45 percent of rent collected, which reduces the potential rate of return for large-scale investors.[15] In addition, most condominium hotels require high homeowners association dues in addition to management services and taxes.

Characteristics of Communities With the Largest Number of Institutional Purchases

Because of its strong population growth, Texas is a hotspot for investor purchases. According to a 2021 report from the National Association of REALTORS®, 28 percent of Texas home purchases were made by institutional investors, the highest percentage in the nation.[16] The same report states that areas that attract institutional investors to a market include those where the number of households grew more than 11 percent during the past decade, renters make up 30 percent or more of local households, 12 percent of residents moved within the past year, rents increased more than 30 percent during the past decade, and home prices rose more than 40 percent in the past decade. The Dallas-Fort Worth-Arlington MSA meets those criteria; it also serves as an interesting case study, because the MSA is broken into two separate metropolitan divisions.

Case Study: Dallas/Fort Worth

Between 2010 and 2020, the population and the number of households in the Dallas-Fort Worth-Arlington MSA increased by nearly 20 percent. With such strong population growth, home price and rent increases during the past decade were well above the respective 30 and 40 percent thresholds that make an area attractive to institutional investors. The Dallas-Fort Worth-Arlington MSA consists of two metropolitan divisions: Dallas-Plano-Irving and Fort Worth-Arlington. The Dallas-Plano-Irving metropolitan division is the larger of the two, with a population of more than 5.1 million and more than 1.8 million households as of the 2020 decennial census; the Fort Worth-Arlington metropolitan division had a population of 2.5

million and slightly more than 900,000 households during the same period. According to data from John Burns Real Estate Consulting, as of August 2022, institutional investors owned more than 15,800 single-family rental properties in the Dallas-Plano-Irving metropolitan division and more than 13,750 in the Fort Worth-Arlington metropolitan division. These investors are buying a larger share of homes in the Fort Worth-Arlington metropolitan division (1.4 percent of all housing units) than in the Dallas-Plano-Irving metropolitan division (approximately 0.8 percent of all housing units).

This case study incorporates data on cash home sales at the ZIP Code level to highlight the reasons why investor activity since 2017 has grown more rapidly in the Fort Worth-Arlington metropolitan division than in the much larger Dallas-Plano-Irving metropolitan division. In each of the metropolitan divisions, the highest percentage of cash home sales occurred in the principal county. In the Dallas-Plano-Irving metropolitan division, Dallas County is the largest county, with a population of more than 2.6 million. Tarrant County, with a population of more than 2.1 million, is the largest county in the Fort Worth-Arlington metropolitan division.[17] Between 2010 and 2020, Dallas County's population increased by an average of 24,500 annually, or 1.0 percent, whereas Tarrant County's population increased by an average of 30,100 annually, or 1.6 percent. The faster population growth rate of Tarrant County is one factor making it a more attractive location for institutional investors.

As of the 2020 decennial census, Tarrant County had 760,700 households, an average annual increase of 10,400, or 1.5 percent, since 2010, whereas the number of households in Dallas County increased by an average of 11,000 annually, or 1.2 percent, during the same period. Although Dallas County gained more households between 2010 and 2020, Tarrant County gained households at a faster pace. Investors also consider the components of change, including the area's average household size, when buying a single-family home to rent. Between 2010 and 2020, the average size of a newly formed household in Tarrant County was 2.89 people, whereas in Dallas County the average household size was just 2.22 people. Single-person households made up 15.7 percent of all households in Dallas County but just 11.7 percent of households in Tarrant County.[18] Also, 34.8 percent of households in Tarrant County included

Sharp increases in home prices and rents during the past decade made the Dallas-Fort Worth-Arlington MSA attractive to institutional investors.

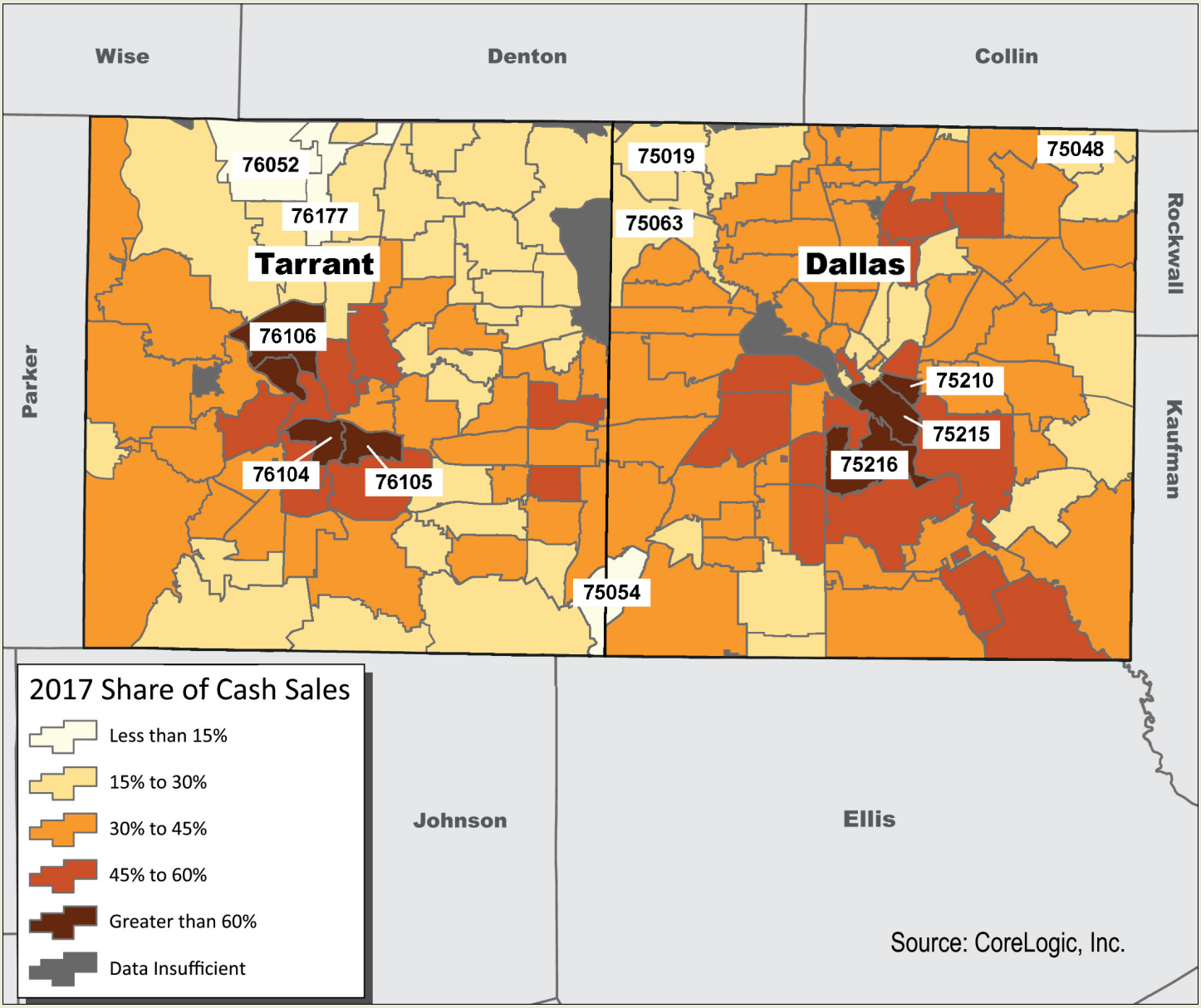
a child under the age of 18 compared with just 32.0 percent of households in Dallas County.[19] For investors in single-family rental properties, areas with a greater share of larger households with children would be more attractive than areas with a higher share of single-person households, which tend to gravitate toward smaller apartment units. Tarrant County not only has a greater share of larger households than Dallas County but also a higher percentage of single-family homes. Single-family homes made up 67 percent of all housing units in Tarrant County compared with 53 percent of all housing units in Dallas County.

Financial considerations also influence investors' decisions, leading to more investment in Tarrant County than in Dallas County during the past 5 years. Ideally, investors want not only a steady stream of rental income but also an asset that holds its value. From 2017 to 2021, the average sales price of a home in Tarrant County increased by an average of $19,150 annually, or 7 percent, compared with an annual increase of $13,000, or 4 percent, in Dallas County.[20]

Taxes are an important consideration for the investor as well, especially in Texas, whose property tax rate is among the nation's highest. Tarrant County's tax rate was approximately $0.5836 per $100 of assessed value,[21] which is lower than the Dallas County rate of approximately $0.6165 per $100 of assessed value.[22] This difference, while not large, can affect the return on an investment, particularly for large investors making multiple purchases.

According to data from CoreLogic, cash home sales accounted for 31.4 percent of

Cash Home Sales in Tarrant and Dallas Counties: 2017

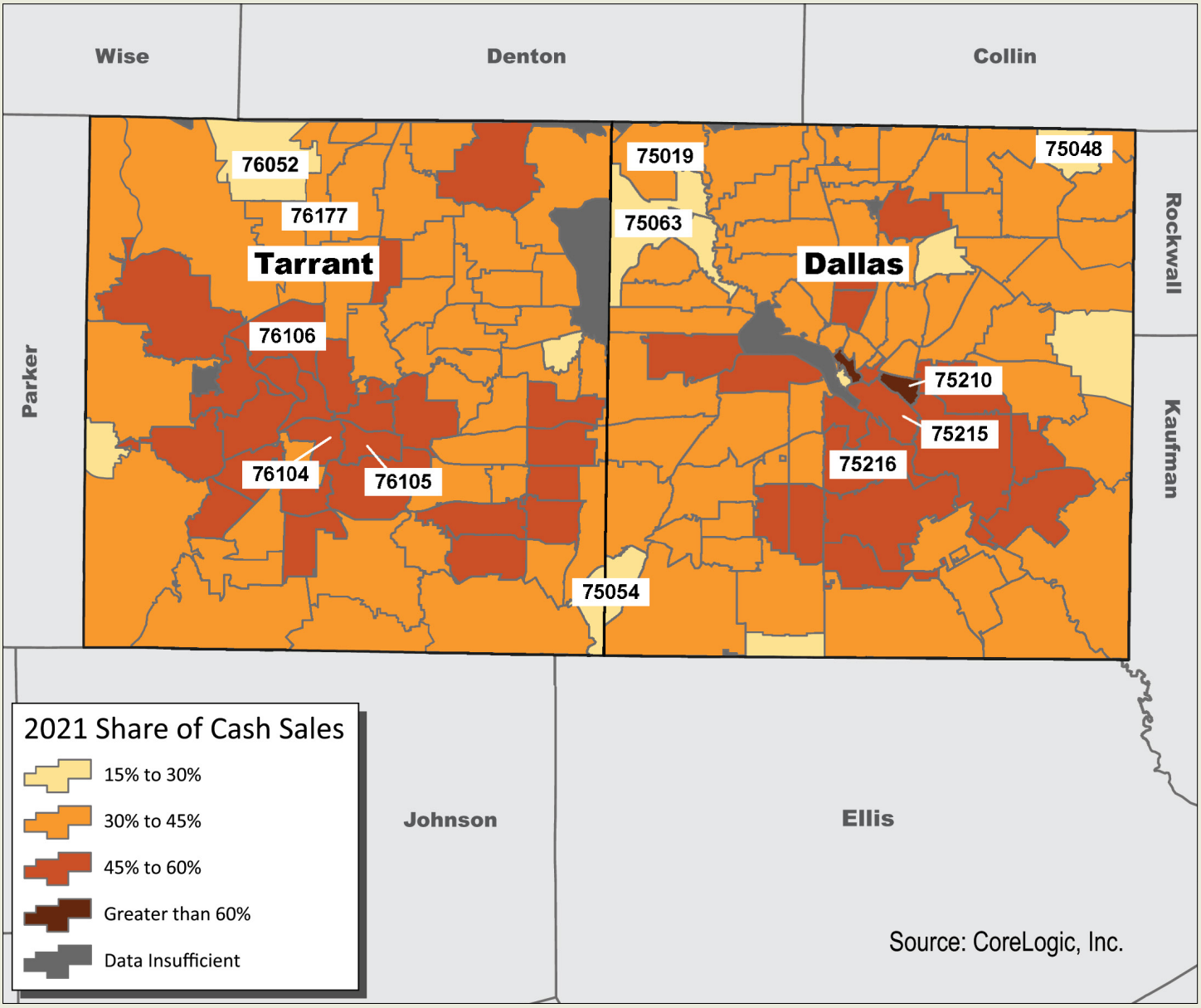


all home sales in Tarrant County in 2017, but by 2021, cash home sales accounted for 39.7 percent of all home sales in the county. The rate of growth in cash home sales in Tarrant County was much faster than that of Dallas County during the same period. Cash home sales in Dallas County accounted for 37.1 percent of all home sales in 2017 but just 39.6 percent of all home sales in 2021.

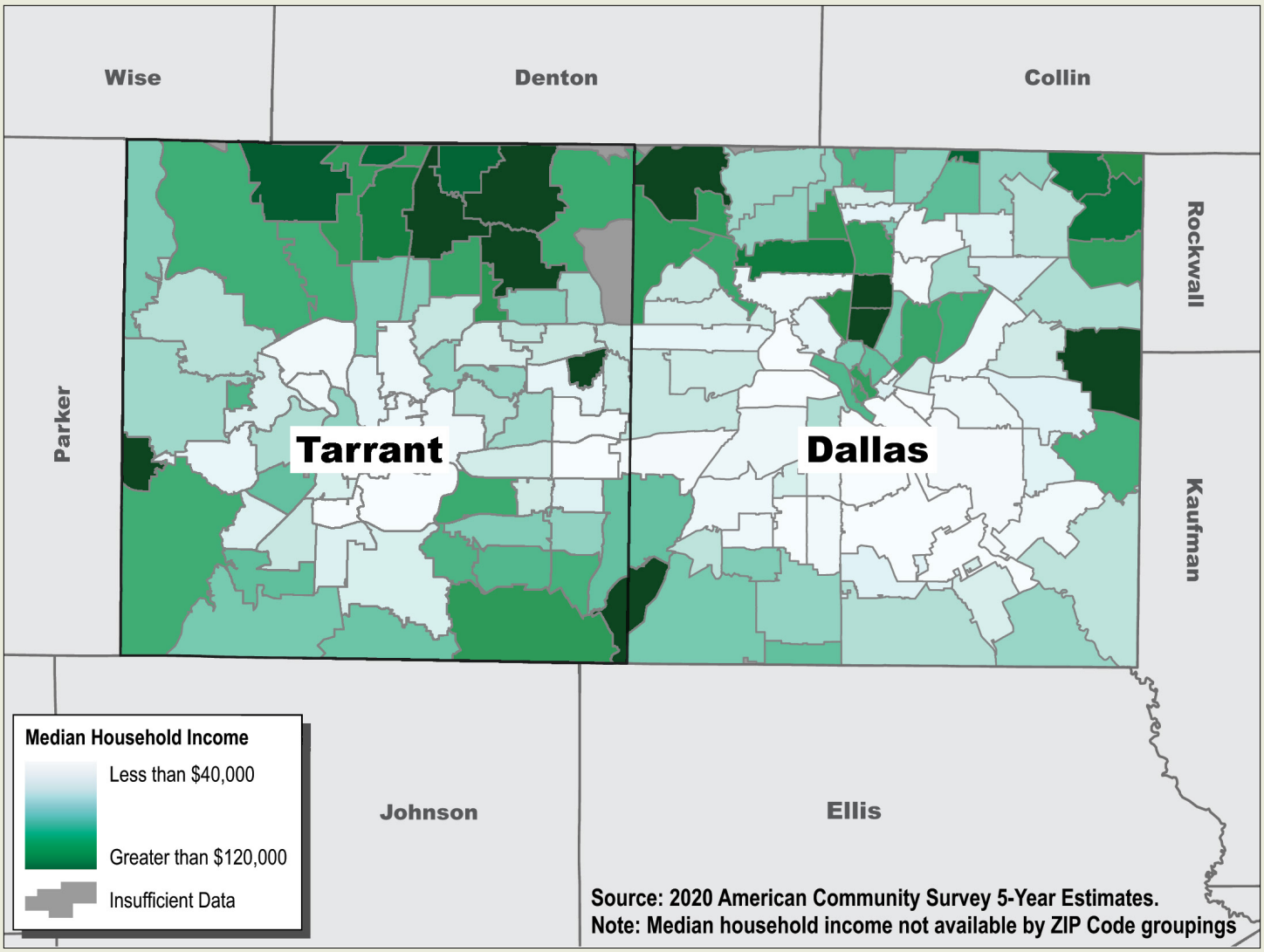
Analyzing the ZIP Code areas with the highest and lowest percentages of cash home sales yields additional insights. During 2017, the three ZIP Codes with the highest percentage of cash home sales in Dallas County were 75210, 75215, and 75216 (hereafter, the high Dallas group). The high Dallas group consists of contiguous ZIP Codes located in the city of Dallas, just south of downtown and Interstate 30. Within these ZIP Codes, according to 2020 American Community Survey 5-year data, minorities account for more than 90 percent of the population.[23] The three ZIP Codes in Tarrant County with the highest level of investor home sales in 2017 were 76104, 76105, and 76106 (hereafter, the high Tarrant group).

Although the high Tarrant group's ZIP Codes are sequential, they are not contiguous. The 76106 ZIP Code is northwest of downtown Fort Worth, and the other two ZIP Codes are south of downtown Fort Worth. Like the high Dallas group, the high Tarrant group is home to a large population of minority residents; more than 80 percent of all residents belong to a minority group. In both groups, a significant percentage of the housing stock is older. According to 2020 American Community Survey 5-year data, more than 77 percent of all housing units in the high Dallas group

Cash Home Sales in Tarrant and Dallas Counties: 2021



Median Household Income in Tarrant and Dallas Counties: 2016–2020



were built before 1980 compared with slightly more than 68 percent in the high Tarrant group.[24] These older homes are more likely to transition from owner occupancy to renter occupancy. According to 2016 American Community Survey 5-year data, both the high Dallas group and the high Tarrant group had homeownership rates of less than 50 percent,[25] and in 2017, the average home sales price in these groups was less than 50 percent of the average home sales price in the county overall.[26]

During 2017, cash home sales accounted for 68.9 percent of all home sales in the high Dallas group, with an average home sales price of $119,300, nearly 58 percent lower than the Dallas County average of $283,100.[27] By 2021, cash home sales had declined to 57.3 percent of all home sales, whereas the average home sales price in this area rose to $212,500, an average annual increase of $23,300, or 15.5 percent. In 2021, the average home sales price in the high Dallas group was approximately 40 percent lower than the average home sales price in Dallas County as a whole. According to 2016 American Community Survey 5-year data, the average household income in the high Dallas group was $43,996,[28] nearly 44 percent lower than the average household income in the Dallas-Fort Worth-Arlington MSA. According to the 2020 American Community Survey, the average household income in the high Dallas group rose to $48,575,[29] an increase of 2.5 percent annually. Income growth during this period was already well below the rate of increase in average home sales prices in these ZIP Codes. Income growth also fell short of the rate of rent growth in these ZIP Codes, where rents increased by an average of $42 annually, or 4.4 percent, from 2017 to 2021.[30] During these years, the costs associated with both homeownership and renting required a larger share of income in these ZIP Codes, with homeownership costs increasing at a faster rate. The increase in costs contributed to a declining homeownership rate in these ZIP Codes. According to 2016 American Community Survey 5-year data, the homeownership rate in these

ZIP Codes was 46.1 percent,[31] which dropped to 44.7 percent according to 2020 American Community Survey 5-year data.[32]

Similar patterns occurred in the high Tarrant group; the early arrival of investors in these ZIP Codes contributed to more rapid growth in home prices than in the county as a whole, and increases in the average home sales price outpaced income growth, which contributed to a decline in the county's homeownership rate. In 2017, cash home sales accounted for 68.2 percent of all home sales in the high Tarrant group with an average home sales price of $121,600, which was more than 50 percent lower than the average home sales price of $245,500 in Tarrant County as a whole.[33] By 2021, cash home sales had declined to 52.1 percent of all home sales in the high Tarrant group, and the average home sales price for this group rose to $203,600, an average annual increase of $20,500, or 13.8 percent. The average home sales price during 2021 in the high Tarrant group was approximately 36 percent lower than the $322,100 average home sales price in Tarrant County as a whole. Incomes in the high Tarrant group increased at a much faster rate than that of the high Dallas group. According to 2016 American Community Survey 5-year data, the average annual household income in the high Tarrant group was $38,768,[34] nearly 50 percent lower than the MSA's average household income. According to 2020 American Community Survey 5-year data, the average annual household income in these ZIP Codes increased to $51,566,[35] an average gain of 7.4 percent annually. Income growth during this period was less than the rate of increase in the average home sales price of a home in the high Tarrant group but greater than the rate of rent growth, which increased annually by an average of $37, or 2.9 percent, from 2017 to 2021.[36] During these years, the costs associated with homeownership required a larger share of income from high Tarrant group residents and contributed to a declining homeownership rate. According to American Community Survey 5-year data, the homeownership rate in the high Tarrant group fell from 49.7 percent in 2016[37] to 47.2 percent in 2020.[38]

In 2017, the three ZIP Codes with the lowest percentage of cash home sales in Dallas County were 75019, 75048, and 75063 (hereafter, the low Dallas group). The 75019 and 75063 ZIP Codes are adjacent, located just northeast of Dallas/Fort Worth International Airport, and include parts of the cities of Coppell and Irving. The 75048 ZIP Code is in northeastern Dallas County and includes the city of Sachse. The three ZIP Codes with the lowest percentage of cash home sales in 2017 in Tarrant County were 75054, 76052, and 76177 (hereafter, the low Tarrant group). According to 2020 American Community Survey 5-year data, the minority population was less than 20 percent in the low Dallas group and approximately 35 percent in the low Tarrant group, both of which were significantly less than the minority population in the high Tarrant and high Dallas groups.[39] The 76052 and 76177 ZIP Codes are adjacent to each other in northern Tarrant County, situated along the Interstate 35W corridor and west around the city of Haslet. The 75054 ZIP Code is in far southeastern Tarrant County in the city of Grand Prairie, on a peninsula in Joe Pool Lake. Both the low Dallas and low Tarrant groups are areas in which the average annual household income in 2017 exceeded $100,000. The low Tarrant and low Dallas groups both had average home sales prices in 2017 that were above the county's average home sales price. From 2017 to 2021, the rate of growth in home sales prices in the low Tarrant and low Dallas groups was well below that of the high Tarrant and high Dallas groups. In addition, the homeownership rate in the low Dallas group increased from 60.0 percent in 2016 to 60.7 percent in 2020, and in the low Tarrant group, the homeownership rate rose from 77.4 percent to 81.7 percent. The housing stock in the low Tarrant and low Dallas groups is considerably newer, with just 6.8 percent and 5.1 percent of the housing units in the low Dallas group and low Tarrant group, respectively, built before 1980.

In both Dallas and Tarrant counties, cash home sales tend to account for a higher percentage of overall home sales in ZIP Codes where home prices are less than the average home price in the county overall and where the average household income is well below the average household income for the metropolitan division as a whole. One of the implications of these findings is that, because so many cash home sales are in lower-income neighborhoods, homeownership becomes even further out of reach for people on the lower end of the income spectrum. In 2017, cash home sales in Dallas County accounted for more than one-third of all home sales in 53 out of the 77 ZIP

Because so many cash home sales are in lower-income neighborhoods, homeownership becomes even further out of reach for people on the lower end of the income spectrum.

Codes surveyed, but as of 2021, cash home sales accounted for more than one-third of all home sales in 64 of these ZIP Codes.[40] According to 2016 American Community Survey 5-year data, 51 ZIP Codes in Dallas County had a median household income that was below the median household income for the MSA overall,[41] and of these, 48 had cash home sales constituting more than one-third of all home sales. In Dallas County, 26 surveyed ZIP Codes had a median household income higher than the MSA's overall median income, of which only 14 had cash home sales accounting for more than one-third of all home sales. In six ZIP Codes in Dallas County, cash home sales accounted for more than 50 percent of home sales in 2021, and the median household income in all of those ZIP Codes was less than $45,000. A similar pattern exists in Tarrant County, where, out of 62 ZIP Codes surveyed, cash home sales accounted for one-third or more of all home sales in 31 ZIP Codes in 2017 but rose to 55 ZIP Codes in 2021. According to 2020 American Community Survey 5-year data, 33 ZIP Codes in Tarrant County had a median household income that fell below the median household income for the MSA as a whole.[42] Of these 33 ZIP Codes, 32 had cash home sales accounting for more than one-third of all home sales in 2021. Twenty-nine surveyed ZIP Codes had a median household income that was higher than the median income in the MSA as a whole in 2020, of which 21 had cash home sales constituting more than one-third of all home sales in 2021. In eight Tarrant County ZIP Codes, cash home sales accounted for more than 50 percent of home sales in 2021, and the median annual household income in five of those ZIP Codes was less than $45,000 in 2020. Of the other three ZIP Codes in which cash home sales made up more than 50 percent of home sales in 2021, two had a median annual household income that was higher than that of the MSA as a whole, but the difference was less than $1,000.

Impact on Other Rental Stock

New apartment unit construction was more active in the low Dallas and low Tarrant groups than in the high Dallas and high Tarrant groups. In the Tarrant County group, nearly 4,625 apartment units were constructed between 2017 and 2021, and in the Dallas County group, approximately 2,825 apartment units were built during the same period. Apartment building activity was more prevalent in the Tarrant County ZIP Codes than in the Dallas County ZIP Codes, partly because land costs were lower in Tarrant County. Most new apartment construction in these ZIP Code groups were in areas with low rates of cash home sales. Since 2017, 435 apartment units have been constructed in the high Tarrant group, and just 230 units have been constructed in the high Dallas group. Although all four ZIP Code groups experienced rising rents, they rose fastest in the high Dallas group, which, with only 230 new units built, saw rents increase at a rate of 6.6 percent annually.[43] The high Dallas and high Tarrant groups had higher rates of rent growth than did the low Dallas and low Tarrant groups.

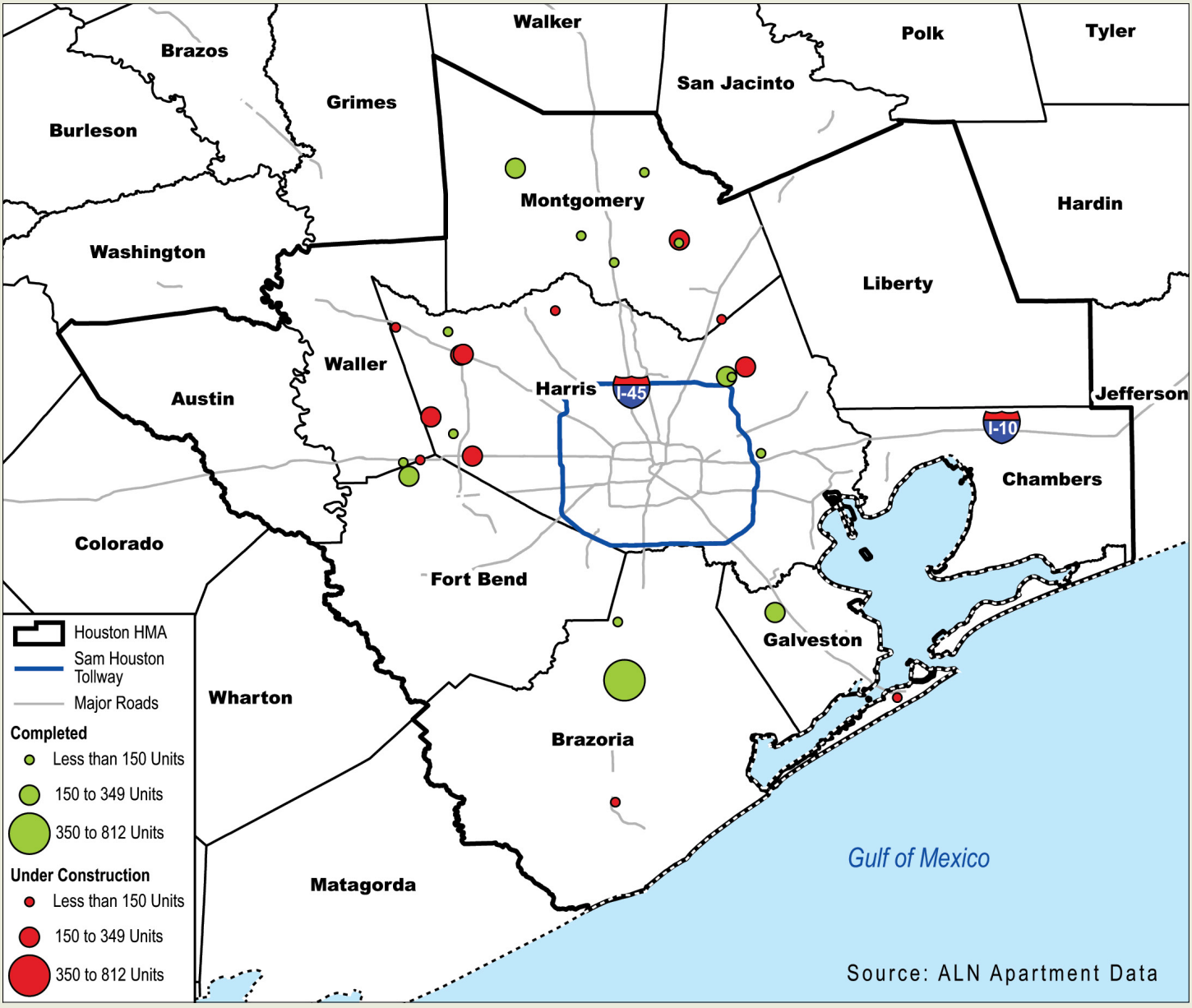
Single-Family Homes Within Master Planned Communities: Build for Rent

Although investors have traditionally purchased primarily existing homes, this pattern has recently changed, with developers and builders either selling their inventory in bulk directly to investors or working with investors to build new inventory. One example of the latter is the Amber Pines at Fosters Ridge subdivision in Conroe, Texas. Real estate investment firm Fundrise purchased all 124 homes in this subdivision from homebuilder D.R. Horton in an all-cash transaction with the intent to rent. Although single-family rentals have long been a part of the rental housing inventory as aging homes transition from owner occupied to renter occupied, the build-for-rent model is a relatively new and increasingly popular concept. As the name implies, build-for-rent projects involve single-family housing units that are built for renter occupancy. According to a 2022 article from *RentCafé,* the number of new single-family homes built specifically as rentals is expected to reach an all-time high of 13,900 in 2022, up from the previous record of 6,740 in 2021.[44] Texas, with several fast-growing metropolitan areas, is a prime location for new build-for-rent subdivisions.

Case Study: Houston

The Houston-The Woodlands-Sugar Land MSA (Houston MSA) was among the first metropolitan areas in Texas to adopt the build-for-rent movement. Since 2018, 14 subdivisions consisting of 2,575 single-family homes in the Houston MSA have been built-for-rent.[45] According to data from ALN Apartment Data, the average rent at these properties is $2,279, which is above the average market-rate rent of $1,901 for apartment units built since 2018. Although the average rent for the build-for-rent properties may be higher than market-rate properties, the average rent per square foot is lower: $1.34 per square foot for the build-to-rent properties compared with $1.99 per square foot for apartment units in the Houston MSA as a whole. The larger square footage appeals to young professionals just starting families who want the amenities of single-family living but cannot afford the upfront costs associated with homeownership. Unlike the cash home sales of existing homes, which tend to be concentrated more heavily in the central counties of metropolitan areas, build-for-rent properties tend to be constructed in lower-cost suburban areas. Of the 14 current build-for-rent subdivisions in the Houston MSA, only 4 are located in Harris County, the MSA's principal county, and none of the build-for-rent subdivisions in Harris County are located inside of the Sam Houston Tollway/Beltway 8. Harris County, which encompasses 1,778 square miles and is larger than the state of Rhode Island, still has large

Build-for-Rent Properties in Houston-The Woodlands-Sugar Land MSA: 2022



swaths of developable land. In the Houston MSA, 17 build-for-rent developments consisting of 3,290 homes are currently under construction, which will more than double the current inventory of this type of product. In addition, 8 projects consisting of 1,500 build-for-rent homes are planned for the Houston MSA.

Markets With Limited Institutional Investor Activity

Single-family home investment and growth in single-family homes for rent has been driven by increasing and anticipated levels of rental demand nationwide. Much of this growth depends on local economic factors that affect overall demand in certain markets and at certain price points. In markets where institutional investors represent less than 1 percent of the market share for single-family rentals, barriers exist that have capped the segment's growth. Recently, Blackstone-owned Home Partners of America announced that it will stop purchasing single-family homes in 38 cities as of October 1, 2022, stating that it "assessed several factors such as home price appreciation, state and local regulations and market demand."[46] Cities included in the announced pullout were Albuquerque, New Mexico; Myrtle Beach, South Carolina; Lexington, Kentucky; Fayetteville, Arkansas; and New Orleans, Louisiana; all cities in HUD Regions IV and VI with 1 percent or less of the total single-family rental market share identified as institutional investors in respective metropolitan areas.[47] The lack of large-scale investment in certain markets is tied directly to evaluations of the risk-return profile of individual markets, including localized economic factors, market fundamentals, assessments of anticipated demand, and any current or potential regulatory barriers.

Institutional Investor Activity Noticed

The geographic and economic heterogeneity across the nation is also observed in differences in local policies regarding housing. Local attention has heightened as large investment firms convert single-family homes to rentals and, increasingly, construct build-for-rent communities within highly desirable and increasingly unaffordable areas. Advocates for regulation locally — such as homeowners' associations, local governments, and advocacy groups — often cite declining community involvement and changing neighborhood character as reasons for investor activity increasing costs of housing, thereby limiting the availability of affordable housing options. In recent years, the increase in the number of institutional investments in single-family home purchases and building single-family structures intended for rent has many residents and local governments looking to regulation to mitigate any current or potential concerns. While rental properties typically take the form of either a long-term rental or a short-term rental, regulatory barriers are often aimed at short-term rentals locally.

Pushing Back Against Institutional Investors

Although most of the New Orleans-Metairie MSA lacks developable land, governments have enacted other significant regulatory barriers to institutional investment in the single-family rental market. Beginning in 2017, after investment purchasing significantly increased, the New Orleans City Council passed a series of ordinances requiring data sharing from online platforms and allowing short-term rentals through three different licenses: accessory, temporary, or commercial. By March of 2018, the city granted nearly 4,300 short-term rental licenses.[48] An additional 2,750 nonpermitted short-term rentals with bookings were found on the Airbnb platform alone as of March 2018. In addition, single operators with multiple listings were using several names to procure multiple licenses. In 2019, in response to requests from local advocacy groups, New Orleans passed a city ordinance requiring new taxes, fees, and either a primary residency or a Louisiana homestead property tax exemption to obtain a short-term license. However, the 5th Circuit of the U.S. Court of Appeals recently struck down the 2019 New Orleans law, stating that restricting short-term rental licenses unconstitutionally blocks nonresidents of Louisiana from owning property in the city.[49] This decision, which covers Texas, Louisiana, and Mississippi, has implications for other municipalities attempting to curb short-term rental properties in general.

In Texas, the uptick in investment purchasing has prompted various cities and municipalities to enact short-term rental ordinances. In the city of Dallas, no formal short-term rental registration ordinance currently exists. The Dallas City Council, however, is currently considering various zoning restrictions such as instituting zoning requirements, enacting property owner stipulations, limiting the number of residents per dwelling, and barring use of rental properties for entertainment purposes. The Dallas City Council identifies short-term rentals as units that rent daily or weekly for periods of less than 30 days.[50] The city of Fort Worth has a similar definition for short-term rentals, which currently are allowed only in areas zoned for mixed-use or commercial development. At the beginning of 2022, Fort Worth selected Deckard Technologies to identify short-term rentals in the city and concluded that more than 89 percent of the city's short-term rentals were either not authorized or operating illegally.[51] The city has proposed four options to regulate short-term rentals: continuing to require short-term rentals to move from residential zones to mixed-use and commercial zones; assigning owner-occupied short-term rentals conditional use permits with licensing requirements; capping the number of short-term rentals at 10 percent of the housing stock and limiting them to areas zoned for multifamily buildings; and allowing a combination of zoning, conditional permitting, and 10 percent caps, either citywide or only within certain neighborhoods.

By comparison, in February 2022, the state of Georgia proposed House Bill 1093 and Senate Bill 494, which would preempt municipalities from enacting or enforcing any restrictions on residential rental agreements of more than 30 days and threatened to withhold state funding for violations. Backlash to the proposed bills was strong, and advocates cited a report for the Federal Reserve Bank of Atlanta stating institutional investors filed 2 eviction notices for every 10 homes they owned, higher than the overall eviction rate in Atlanta.[52] The Georgia Municipal Association, representing Georgia municipalities, opposed the bill because it would take away city and municipal authority to make build-for-rent decisions. Currently, local and city officials statewide are opposing the bills, maintaining that local governments should be allowed to regulate construction activity within their jurisdictions.

Conclusion

Institutional investment has been robust in many areas nationwide since the Great Recession. According to a 2018 *Shelterforce* article by Julia Gordon, "During the crisis, America's homeowners lost $17 trillion of home equity, and millions — perhaps as many as 10 million — lost their homes entirely. But homeowners didn't get back all that equity when the market recovered. Instead, a significant portion of the gains went straight to the private-equity funds and other corporate investors who bought low and sold high or are still holding properties as single-family rentals."[53] Following the surge in investor purchases after the Great Recession, the homeownership rate fell from a peak of 69.0 percent in 2004 to a low of 63.4 percent in 2016.[54] Although the homeownership rate has risen since 2016, concerns linger that increased investor purchases

of homes could cause the homeownership rate to drop once again, which would inhibit Americans' ability to build wealth through homeownership.

More recently, concern over these investments and their potential impact on local communities has been amplified. Interestingly, as national attention toward institutional investment has grown, the housing market has begun shifting. In the past year, mortgage interest rates have risen, growth in home prices has slowed, and the inventory of new homes has been rapidly increasing. According to a survey by John Burns Real Estate Consulting, 34 percent of all homebuilders sold a share of their homes to single-family rental operators in the past 12 months.[55] Because traditional buyers increasingly are affected by rising mortgage rates, builders are looking to institutional investors, often selling their inventory to them at a 10 to 15 percent discount.[56] Immediately following the Great Recession, investors were often credited with recovering housing prices, reducing vacancies, and shortening property bank ownership timelines.[57] Although the housing market has changed significantly since the aftermath of the Great Recession, one fact remains: institutional investors are increasing real estate investments outside of distressed markets, and the overall long-term impact merits future research. EM

— Cameron Ehrlich, *Economist, HUD*
— Tim McDonald, *Lead Economist, HUD*
— L. David Vertz, *Regional Director, HUD*

[1] iBuyers, or instant buyers, are companies that use technology to buy and sell homes quickly.

[2] Laurie Goodman and Edward Golding. 2021. "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire,* 20 October.

[3] CoreLogic, Inc.; home sales prices are for the 12 months ending July 2022.

[4] U.S. Census Bureau. "Table B25024 Tenure by Units in Structure," 2021 American Community Survey, 1-year data.

[5] Joint Center for Housing Studies of Harvard University. 2022. "America's Rental Housing 2022."

[6] Gross rental yield is the quotient of one year's entry-level home rental amount (minus the property tax) and the entry-level home price. John Burns Real Estate Consulting. 2022. "Single-Family Rental Analysis and Forecast," August.

[7] Vicki Been, Ingrid Gould Ellen, and Katherine O'Regan. 2018. "Supply Skepticism: Housing Supply and Affordability," NYU Furman Center.

[8] Paul Emrath. 2021. "Government Regulation in the Price of a New Home: 2021," National Association of Home Builders, 5 May.

[9] Claire Gra. 2021. "An Overview of Single-Family Rentals," *National Multifamily Housing Council Research Notes,* 28 September.

[10] Richard Fry. 2020. "Millennials Overtake Baby Boomers as America's Largest Generation," Pew Research Center, 28 April.

[11] U.S. Census Bureau. "Table S0101 Age and Sex," 2010 and 2021 American Community Survey, 1-year data.

[12] John Burns Real Estate Consulting.

[13] U.S. Census Bureau. "Table S0101 Age and Sex," 2010 and 2021 American Community Survey, 1-year data.

[14] U.S. Census Bureau. "Table B25003 Tenure," 2021 American Community Survey, 1-year data.

[15] BRG Real Estate. 2018. "Buying an Oceanfront Condo — Part 1," 3 October.

[16] The National Association of REALTORS® defines institutional investors as companies, corporations, or limited liability companies.

[17] U.S. Census Bureau. "Annual Resident Population Estimates for States and Counties: April 1, 2010 to July 1, 2019; April 1, 2020; and July 1, 2020 (CO-EST2020)."

[18] U.S. Census Bureau. "DP02 Selected Social Characteristics," 2021 American Community Survey, 1-year data.

[19] Ibid.

[20] CoreLogic, Inc. Home sales prices are annual data for 2017 and 2021.

[21] Tarrant County, Texas. "2021 Tax Rate Calculation Worksheets" **(access.tarrantcounty.com/en/tax/property-tax/2021-tax-rate-calculation-worksheets.html)**.

[22] Dallas County, Texas. "Past Tax Rates" **(www.dallascounty.org/departments/tax/past-tax-rates.php)**. Accessed 30 November 2022.

[23] U.S. Census Bureau. "DP05 ACS Demographic and Housing Estimates," 2020 American Community Survey, 5-year data.

[24] U.S. Census Bureau. "DP04 ACS Selected Housing Characteristics," 2020 American Community Survey, 5-year data.

[25] U.S. Census Bureau. "DP04 ACS Selected Housing Characteristics," 2016 American Community Survey, 5-year data.

[26] CoreLogic, Inc. Home sales prices are annual data for 2017 and 2021.

[27] Ibid.

[28] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2016 American Community Survey, 5-year data.

[29] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2020 American Community Survey, 5-year data.

[30] Costar Group, Annual data.

[31] U.S. Census Bureau. "DP04 Selected Housing Characteristics," 2016 American Community Survey, 5-year data.

[32] U.S. Census Bureau. "DP04 ACS Selected Housing Characteristics," 2020 American Community Survey, 5-year data.

[33] CoreLogic, Inc. Home sales prices are annual data for 2017 and 2021.

[34] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2016 American Community Survey, 5-year data.

[35] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2020 American Community Survey, 5-year data.

[36] CoStar Group, Annual Data.

[37] U.S. Census Bureau. "DP04 ACS Selected Housing Characteristics," 2016 American Community Survey, 5-year data.

[38] U.S. Census Bureau. "DP04 ACS Selected Housing Characteristics," 2020 American Community Survey, 5-year data.

[39] U.S. Census Bureau. "DP05 ACS Demographic and Housing Estimates," 2020 American Community Survey, 5-year data.

[40] CoreLogic, Inc. Home sales prices are annual data for 2017 and 2021.

[41] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2016 American Community Survey, 5-year data.

[42] U.S. Census Bureau. "DP03 Selected Economic Characteristics," 2020 American Community Survey, 5-year data.

[43] CoStar Group, Annual Data.

[44] Alexandra Ciuntu. 2022. "Built-to-Rent Homes Expected to Hit All-Time High in 2022, Fueled by Need for Space and Privacy," *RentCafe,* 20 January.

[45] ALN Apartment Data, Inc.

[46] Mark Heschmeyer. 2022. "Blackstone's Single-Family Rental Firm Pauses Some Purchases in Rare Pullback for Surging Property Type," *CoStar News,* 31 August.

[47] John Burns Real Estate Consulting.

[48] Airbnb. 2018. "Data Report," data analysis for the city of New Orleans.

[49] Kevin McGill. 2022. "New Orleans Short-Term Rental Rule Struck Down by Court," *Associated Press,* 23 August.

[50] Matt Payne. 2022. "Dallas City Council Considers New Rules, Registration Program for Short-Term Rental Properties," *Community Impact,* 4 May.

[51] Deckard Technologies. 2022. "City of Fort Worth: Short-Term Rental Final Report."

[52] Elora Raymond, Richard Duckworth, Ben Miller, Michael Lucas, and Shiraj Pokharel. 2016. "Corporate Landlords, Institutional Investors, and Displacement: Eviction Rates in Single Family Rentals," Community & Economic Development Discussion Paper No. 04-16, Atlanta Federal Reserve.

[53] Julia Gordon. 2018. "The Dark Side of Single-Family Rental," *Shelterforce,* 30 July.

[54] Federal Reserve Economic Data. 2022. "Homeownership Rate in the United States," Federal Reserve Bank of St. Louis.

[55] John Burns Real Estate Consulting.

[56] Will Parker. 2022. "Home Builders Offer to Sell Homes in Bulk at Discount to Investors," *Wall Street Journal,* 3 October.

[57] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky. 2022. "Real Estate Investors and the U.S. Housing Recovery," *Real Estate Economics* 50:6, 1425–61.

Investments in Affordable Housing

HIGHLIGHTS

- **Through targeted initiatives to close the wealth gap, the Atlanta Neighborhood Development Partnership, Inc., uses capital from various sources to acquire and rehabilitate vacant housing and connects families to downpayment assistance.**
- **The Housing Partnership, Inc., offers residents of Louisville's West End a lease-to-purchase program, which holds a mutually agreed-upon sales price of leased homes to purchase until families have completed homebuyer education courses and are financially stable.**
- **Acts Housing's homebuyer coaches prepare families for homeownership, and its acquisition fund will help maintain a pool of affordable houses in Milwaukee for low- to moderate-income families to purchase when they are ready.**

With their access to capital, for-profit investors can purchase and renovate distressed housing and return units to the market at higher resale prices and rents, which prices out low- to moderate-income (LMI) residents.[1] Several local nonprofits, however, are counteracting these practices and preserving affordable housing opportunities in their communities. The Atlanta Neighborhood Development Partnership, Inc. (ANDP) is taking measures to reduce the wealth gap between Black and White households, especially in neighborhoods hit hard by the 2008 foreclosure crisis. Through its loan fund and targeted initiatives to expand homeownership, ANDP acquires, renovates, and preserves affordable single-family and multifamily units and provides downpayment assistance to qualifying homebuyers. To preserve homeownership opportunities for LMI residents in Louisville, Kentucky, the Housing Partnership Inc. (HPI) maintains a pool of rehabilitated housing and prepares residents for homeownership through a lease-to-purchase program. In Milwaukee, Wisconsin, nonprofit Acts Housing launched the Acts Homeowner Acquisition Fund to purchase and preserve affordable single-family homes for LMI families. These nonprofits also have received HUD funding and program support for acquisition and homebuyer education, which are critical to expanding homeownership opportunities for LMI households and stabilizing neighborhoods.

Investing in Affordable Housing in Atlanta

Neighborhoods in the Atlanta metropolitan area were hit hard by the 2008 foreclosure crisis, which resulted in thousands of abandoned properties. As the values of these foreclosed homes dropped, many loan servicers quickly sold the properties to investors, who often left the homes vacant for years or sold them to other investors as rentals.[2] During the fourth quarter of 2021, investors bought 41 percent of all homes sold in the city of Atlanta — the highest share in the nation.[3] This increase in investor activity has made it more difficult for LMI households, many of which are households of color, to purchase a home. According to 2020 American Community Survey 5-year estimates, 35.4 percent of the city's owner-occupied housing units are owned by Black households, whereas 55.6 percent are owned by White households.[4] Nonprofit organizations such as ANDP are devising solutions to preserve access to homeownership for households of color and stabilize distressed neighborhoods.[5]

Raising Capital

ANDP was founded in 1991 through a merger between the Atlanta Chamber of Commerce's Housing Resource Center and the Atlanta Economic Development Corporation Neighborhood Development Department. A particular focus of ANDP was to acquire and rehabilitate single-family homes that became vacant because of the 2008 foreclosure crisis.[6] HUD funding was a large source of support for this work. The city of Atlanta and eight surrounding counties received $93 million from the first round of HUD's Neighborhood Stabilization Program (NSP) in 2008 and $31 million in the third round in 2010, which helped local municipalities purchase, rehabilitate, offer downpayment assistance, and sell or rent vacant homes in communities impacted by the foreclosure crisis.[7] ANDP leveraged more than $34 million in NSP funds for its single-family housing portfolio across seven jurisdictions of the Atlanta metropolitan area. After the final round of NSP funding, ANDP sought certification as a community housing development organization, which allowed it to compete for federal funds from the HOME Investment Partnerships program. HOME funding enabled ANDP to scale up its efforts to acquire and rehabilitate single-family homes with less risk. Approximately 60 percent of the sales from HOME-funded single-family homes financed the rehabilitation of additional HOME projects.[8] HOME funding was an "important part of the genesis of our single-family work," said Jay Perlmutter, ANDP's managing director of single-family development, and, combined with NSP, the two programs financed approximately 90 percent of ANDP's work in its early years.[9] ANDP also is approved to participate in the Federal Housing Administration's (FHA's) HUD-Approved Nonprofit and Governmental Entities Program, including FHA's real estate owned (REO) sales program.[10] From 2013 to 2018, ANDP also acquired more than 50 single-family REO properties donated from private banks as well as Fannie Mae and Freddie Mac, which gave ANDP "first look" opportunities to submit offers. ANDP renovated REO homes and sold them to veterans and LMI households. As of September 2022, ANDP acquires fewer than 10 percent of its homes using HOME program funding.[11]

As federal funding decreased, staff at ANDP began to pivot to other sources of capital and examine how philanthropic organizations and banks could fund program-related investments. In addition to its development work, the organization also distributes capital to other developers of affordable housing through its ANDP Loan Fund, which operates as a separate nonprofit subsidiary of ANDP.[12] The fund issues loans ranging from $500,000 to $2 million to local affordable housing developers for predevelopment, acquisition, construction, rehabilitation, gap funding, and lines of credit. The ANDP Loan Fund prioritizes projects serving LMI residents in the Atlanta metropolitan area and throughout Georgia.[13] Reinvestment Fund, a leading national community development financial institution (CDFI), co-lends and provides loan underwriting services.[14] Because of the partnership with Reinvestment Fund, the ANDP Loan Fund has grown from $3 million to $16 million and is a top CDFI lender to small, minority, and women-owned developers in Georgia.[15]

As ANDP scaled up its development efforts, the organization was also able to secure low-cost enterprise debt to acquire and renovate existing homes or build new homes. In 2012, ANDP sought enterprise-level loans from private banks and social impact organizations in Atlanta and across the country to finance its single-family development work. From 2014 to 2022, ANDP's enterprise loans increased from $200,000 to $14 million and grew from just 2 investors to 10.[16] The enterprise capital saves ANDP approximately $14,000 per home, resulting in lower home prices for homebuyers. Enterprise-level investments allow ANDP to make all-cash offers, facilitate quick closings, and remain competitive for New Markets Tax Credit (NMTC) program and Capital Magnet Fund (CMF) equity. ANDP has had four suballocations of NMTC totaling $40.5 million that it has used to develop more than 220 single-family homes.[17]

Programs Expand Affordable Housing

ANDP staff were aware of the many place-based community development strategies being enacted in the city of Atlanta, but very few of these were happening in the suburbs, where many LMI families faced considerable needs. The organization focused on 15 ZIP Codes in DeKalb County (located east of the city of Atlanta) that had low homeownership rates as a result of the lingering effects of the foreclosure crisis.[18] During the Great Recession, more than 18,000 homeowners in south DeKalb County lost their homes to foreclosure, and about one-third of them experienced negative equity.[19] By 2012, DeKalb County as a whole had approximately 7,000 vacant properties.[20] In 2019, ANDP partnered with Reinvestment Fund, Kaiser Permanente, and The Kendeda Fund, among others, to launch the Home South DeKalb program, which committed financial resources to acquire and rehabilitate 100 single-family homes over a 3-year period and improve homeownership rates, household wealth, and neighborhood stability in south DeKalb County.[21] ANDP and its partners invested a total of $20 million, and by the end of the program, ANDP had exceeded its goal, acquiring and preserving 109 single-family homes, of which 83 were affordable homeownership units and 26 were affordable rentals.[22]

In July 2020, ANDP launched its Closing the Gap initiative, a 5-year plan to invest $450 million to create or preserve at least 2,000 affordable homeownership and rental units in predominantly Black neighborhoods across the Atlanta metropolitan area and its surrounding counties. The initiative is financed through several sources, including enterprise-level debt; social impact funds; philanthropy; and federal sources such as NMTCs, CMF, and low-income housing tax credit (LIHTC) equity.[23] George Burgan, senior director of communications and technology at ANDP, explained that "While affordable homeownership is of utmost importance to us, there have to be more players in the market addressing single-family rentals and affordable apartments, because 98 percent of [the apartments] Atlanta has built in the last decade have been luxury apartments."[24] Out of the 2,000 units of affordable housing in the program, 1,250 will be

Photo courtesy of ANDP

An array of capital sources allows ANDP to list its homes at prices lower than the market rate so that low-income households can become homeowners.

affordable multifamily rentals, 500 will be single-family homeownership units, and 250 will be single-family rentals.[25] ANDP is on track to meet its 2,000-unit goal by 2025. Of the 2,000 single-family homes and apartment units planned for the program, 1,116 of them were either completed or in development as of September 2022.[26]

Developing Equitable Opportunities

Burgan explained that encouraging the growth of minority-owned construction businesses is as important as closing the homeownership gap. Half of ANDP's contractors and construction partners are Black-owned businesses, many of which struggled during the Great Recession. Burgan noted that "By 2025, [ANDP] will have invested $50 million in Black-owned businesses in the real estate sector." He indicated that partnering with ANDP has helped businesses hire staff, who, in turn, have become homeowners. "Success is breeding success in that situation, and ANDP likes to incorporate equity and economic opportunity in every phase of our work, whether it's our lending, our development work, who's on our board, [or] the communities we serve," said Burgan. "It has to be part of the fabric of who we are." ANDP's risk-sharing partnerships help private, minority-owned and -operated contractors grow their businesses with low-cost loans and direct contracts to finance their development work. ANDP reviews project proposals from partner contractors and holds the property title in its name. After ANDP closes on the property, the contractor can begin renovating immediately. ANDP manages the utilities and insurance on the property so that ownership costs do not overburden the small business developer. This arrangement helps local developers expand their businesses and allows them to subcontract certain aspects of the project to others if needed. As Perlmutter explained, ANDP and its contractors operate under a shared risk model; if the projects do well, the proceeds are evenly split, and if the project falters, both parties share in the loss. "It's a risk-based model based upon mutually agreed upon benefits and rewards," Perlmutter explained.[27]

The varied sources of capital help ANDP price its homes affordably, ensuring that potential homebuyers do not have to compete in the mainstream housing market and are able to access financial assistance to make homeownership a reality. Although ANDP targets households earning no more than 120 percent of the area median income (AMI), most of its clients earn about 70 percent of AMI. Among its homebuyers, 71 percent are Black, 15 percent are veterans, and 79 percent receive downpayment assistance. The average annual household income of ANDP's homebuyers is $43,000. Whereas median sales prices in the Atlanta metropolitan area were approximately $395,000 as of September 2022, ANDP sold its homes for approximately $270,000, roughly 30 percent less than the market rate. The renovated homes also include energy-efficient fixtures and appliances, which help families save an average of $427 per year and keep homeownership more affordable for LMI households over the long term.[28]

In 2019, the ANDP Loan Fund became a financial member institution of the Federal Home Loan Bank of Atlanta, which allowed ANDP to participate in the bank's Affordable Housing Program (AHP).[29] ANDP can access AHP funding to assist clients and other buyers with downpayments, closing costs, and other housing finance needs. In 2019, ANDP determined that 93 percent of its buyers had remained in their homes for 5 years or more, contributing to neighborhood stability and student retention at local schools. As of 2021, the buyers had an average monthly mortgage of $717 and had gained more than $135,000 in equity. As Burgan explained, this equity is an important piece of upward mobility, enabling homeowners to improve their homes, finance higher education, or start a small business.[30]

Adapting to Market Fluctuations

Lower mortgage interest rates during the COVID-19 pandemic allowed potential homebuyers to purchase homes even if the sales prices were high. During the pandemic, higher-income households began purchasing second homes, and investors bought up a greater percentage of the housing supply. As interest rates dropped, "everybody wanted in while those numbers were good," said Burgan, "so you have almost this perfect storm of demand, [but the] supply wasn't meeting the need before the perfect storm" — and it is still considerably behind.[31] With mortgage interest rates above 7 percent as of October 2022, their highest rate in 15 years, ANDP is shifting its focus to new construction to help increase the supply of affordable housing and because "it's hard to do renovations and make the numbers work," explained Perlmutter.[32] The combination of rising interest rates, high home prices, and the difficulty involved in estimating renovation costs for distressed properties will make future property acquisition difficult. In addition, households typically make their purchase decisions based on their estimated monthly payment, and potential homebuyers likely will have difficulty purchasing homes over the next year because of these market shifts. The recent increases in interest rates and, in turn, the cost to buy a home, means that creating additional affordable rental units is even more critical to ensure that households can budget and save for homeownership.[33]

Stabilizing Housing in Louisville's West End

The history of west Louisville begins in the late 1830s, when free Black families began purchasing property west of 9th street in what would become the West End neighborhood.[34] Unable to live in other areas of Louisville because of racist housing policies, Black families settled in the West End and built a thriving community with their own businesses, grocery stores, and theaters. Home to Muhammad Ali and other prominent

Black individuals, the area has a rich history.[35] Beginning in the 1960s, however, urban renewal programs demolished many of the area's businesses and constructed large-scale public housing projects.[36] Today, the large number of abandoned properties and the low rates of homeownership are reminders of the area's segregated past. In 2021, half of the area's residents earned less than approximately $25,000 per year, and approximately 40 percent of the population lived below the federal poverty level.[37] The area has struggled to rebound from the foreclosure crisis, and it has endured an onslaught of out-of-state investors who purchase vacant properties and landlords whose high rents displace existing residents.[38] In the West End, the homeownership rate is approximately 24 percent, with investors owning most of the housing stock.[39] Founded in 1990, the Housing Partnership Inc. (HPI) is a nonprofit real estate development organization with a mission to expand affordable housing opportunities for LMI residents in the West End through real estate development and acquisition, a lease-to-purchase program, homebuyer education, and affordable home sales with affiliated downpayment assistance.[40]

Preserving Homeownership Opportunities

Federal, philanthropic, city, and private funding sources have enabled HPI to successfully acquire, renovate, and preserve homes for families in west Louisville. In 2017, HPI began participating in the FHA Mortgagor program, which helped the nonprofit acquire and renovate single-family homes in the West End.[41] The program allows HUD-approved nonprofit organizations such as HPI to apply for the same FHA-insured financing as individual homebuyers.[42] In 2017, HPI became the first nonprofit in the United States in more than a decade to obtain a single-family FHA 203(b) loan in its name.[43] The FHA 203(b) mortgage insurance program is FHA's primary mortgage insurance program for residential properties consisting of one to four units.[44] Serviced by the Kentucky Housing Corporation (KHC) — the state housing finance agency and a key partner of HPI — the FHA 203(b) loan program helped preserve affordability for five houses in the West End neighborhood.[45] According to Andrew Hawes, president and chief executive officer of HPI, residents purchasing homes with the FHA loan could spend $300 to $400 per month less than they were paying in rent. This savings is "impact money for a very low-income family. [It is] additional food they can provide to their family, or furniture, or transportation," said Hawes. The FHA Mortgagor program allowed HPI to "fix the [monthly] cost and show the residents in true form, here's what your payment will be," said Hawes. The loans

Photo courtesy of Marian Silliman

Through its Beyond 9th initiative, HPI has acquired more than 370 homes, and as of August 2022, it had renovated 120 homes using public and private sources of capital.

Photo courtesy of Marian Silliman

In addition to maintaining a pool of renovated and affordable homes in Louisville's West End, HPI helps families achieve homeownership through downpayment assistance and HUD-certified homebuyer education courses.

totaled roughly $60,000 per house. As of October 2022, HPI had sold two of the five homes to families.[46] HPI is also a member of the Housing Partnership Network (HPN), a collaborative composed of more than 100 nonprofit housing and community developers. To support nonprofits striving to increase homeownership among LMI families, HPN created the Housing Partnership Fund (HPF), a CDFI certified by the U.S. Department of the Treasury.[47] Financing from HPF has also helped HPI acquire and renovate properties in the West End.

Launched in 2016, the "Beyond 9th Initiative: Revitalizing West Louisville through Strategic Homeownership & Affordable Housing Opportunities" focuses on rehabilitating vacant properties in distressed areas west of Louisville's 9th street.[48] A major goal of the initiative is to rehabilitate houses near existing owner-occupied houses to ensure that entire blocks can reap the positive benefits of increased property values.[49] Since the launch of the Beyond 9th Initiative, HPI has acquired more than 370 vacant single-family homes with financing from private bank loans, HPF and other national CDFI grants, Louisville Metro Government, KHC Affordable Housing Trust Fund, and the Louisville Affordable Housing Trust Fund. As of August 2022, HPI had completed the renovation of 120 houses to be preserved for single-family homeownership and lease-to-purchase.[50] To finance renovations, HPF allocated $6 million in NMTC equity to HPI in December 2020. Several homes previously were single-family rental units subsidized with LIHTC equity, and the Beyond 9th Initiative represents the first time in Kentucky that NMTC equity had been used to convert single-family rental units to owner-occupied homes.[51]

As Hawes explained, "It's really necessary that we look at the whole transaction — not just [at] development … [but also] homebuyer downpayment assistance and anything [else] we can do for mortgage affordability."[52] To further reduce barriers to homeownership, HPI receives funding for downpayment assistance from regional Federal Home Loan Banks and KHC. In addition, HPI uses grant funding to provide an HPI Home Access Forgivable Loan.[53] HPI also refers clients to the Louisville Metro Down Payment Assistance Program offered through Louisville Metro's Office of Housing and Community Development and connects clients to the Louisville Metro Housing Authority Homeownership Program, in which eligible public housing residents and housing choice voucher recipients receive subsidies toward a monthly home mortgage instead of rent.[54] As of October 2022, HPI

had awarded an average of $10,800 in downpayment assistance per purchase for a total of $692,277 allocated through the Beyond 9th Initiative.[55]

HPI presents families with the option of a lease-to-purchase program called PATH to Homeownership, which the organization has been operating since 2007. Upon entering the program, residents and HPI agree on a sales price for the home, and HPI holds that price for the family until they are ready to purchase. PATH to Homeownership participants typically lease for approximately 5 years or longer depending on their readiness to purchase the home. While leasing, families meet regularly with homebuyer counselors for advice on how to achieve and maintain good credit, reduce debt, and save for homeownership.[56]

West End residents learn about HPI's services through social media, community events, "refer-a-friend" campaigns, and word of mouth among family members and neighbors.[57] In addition, HPI board members represent local affordable housing stakeholders such as Habitat for Humanity of Metro Louisville, community leaders, and local banks, which can refer clients to HPI for homebuyer counseling.[58] All of HPI's residents, including those in multifamily rental units, have access to homeowner education and financial literacy classes.[59] Residents enrolled in PATH to Homeownership must participate in HPI's HUD-certified NeighborWorks America homebuyer education and financial counseling program.[60] The free courses cover topics such as short- and long-term budgeting, saving, improving credit scores, mortgage readiness and affordability, the appraisal process, hiring a real estate agent, home inspection, and home maintenance.[61] In 2018, HPI offered these courses to 305 new and potential homeowners.[62] As of October 2022, 65 houses in the Beyond 9th Initiative had been sold, 10 had active listings, and 5 were pending closing or under contract.[63] An HPI executive attends every home closing, and Hawes stated that "The lease-[to]-purchase sales are always the most rewarding, because the families have such a sense of accomplishment."[64] The total value of these home sales is approximately $6.7 million, with each home selling for an average of $104,000, which allows HPI to at least break even with its NMTC investment.[65] KHC services loans from institutions such as FHA and the U.S. Department of Veterans Affairs as well as conventional loans, and homeowners' mortgage payments range from $360 to $628 per month.[66]

Realizing Positive Outcomes

By reducing barriers to homeownership, HPI is paving the way for increased home wealth in neighborhoods that historically have witnessed disinvestment because of redlining and other racist housing policies.[67] For many of the programs, residents must stay in the home for a minimum of 5 years, which reduces resident turnover and improves neighborhood stability.[68] As of October 2022, most of the homebuyers served through HPI's Beyond 9th Initiative were female (70%), unmarried (86%), and Black (91%) households earning at or below 49 percent of AMI.[69] The combination of purchase agreements in leases, homebuyer education, credit counseling, and downpayment assistance is vital for helping LMI residents and homebuyers of color achieve successful outcomes. HPI's Beyond 9th Initiative is proving that purchasing, rehabilitating, and preserving houses for affordable homeownership is an achievable goal. These efforts have gained the attention of the investor community, philanthropy, and local government partners. Completing renovations on 120 houses simultaneously and achieving positive outcomes gives donors and partners confidence that, with their support, HPI can continue this work on a larger scale.[70]

Overcoming Challenges

HPI aims to acquire and renovate 100 housing units per year over the next 10 years to address blight and reduce property abandonment. Rather than acquiring one or two properties at a time, HPI plans to collaborate with the local government and the local land bank to acquire more properties across full blocks. HPI plans to acquire 40 to 45 homes in 2022 through master commissioner sales, which are often scattered homes throughout the city. The nonprofit is making progress by developing a $10 million capital fund with its philanthropic and financial partners to buy, build, and sell affordable housing. HPI hosted a capital campaign to raise funds to acquire and renovate homes to create homeownership opportunities. Because interest rates are currently high, however, many families will need affordable rental properties for longer periods of time.[71]

All of HPI's residents, including those in multifamily rental units, have access to homeowner education and financial literacy classes.

The jump in 30-year fixed mortgage interest rates from around 3 percent in 2021 to more than 7 percent in fall 2022 constrains HPI's ability to increase inventory and hold houses for long periods.[72] In addition, maintaining lease-to-purchase agreements for long periods can be risky when interest rates and property maintenance costs are high. "The longer we have to keep the house in a lease-[to]-purchase relationship," the more expensive it becomes,

Photo courtesy of Acts Housing

With its acquisition fund, Acts Housing can maintain an inventory of affordable houses for families to purchase once they are financially ready.

Hawes explained. HPI will pivot toward offering affordable rental opportunities to ensure that families can remain stably housed. "If we were only a homeownership development [organization] and we did not have the ability to do lease-[to]-purchase, we would be somewhat stuck with our development pipeline with rates being at 7 percent," Hawes said. HPI's lease-to-purchase approach adapts well to fluctuations in the housing market, especially as rising interest rates depress home sales. Rather than possibly being unable to sell a house because of a lack of eligible buyers, HPI can rent the house to preserve it for the community's benefit and sustain it over a longer period. By ensuring that funding is available, HPI can begin renovations immediately after purchasing a home, which can save money in the long run. "Letting houses sit vacant for too long…can happen in… [the] blink of an eye," said Hawes. Time spent creating a development plan for a property can also leave the property open to theft and vandalism, which can increase the risks and costs of a project. In addition, properties that are vacant for more than 60 days are at risk of losing insurance coverage unless construction activity is occurring, noted Hawes.[73]

Since 2017, HPI has been advocating through HPN and the Homeownership Alliance for a cash-out refinance on its housing stock. Although rehabilitation loans through the FHA 203(k) program allow borrowers to purchase and refinance a home that needs considerable repairs, Hawes indicated that the program's guidelines are too cumbersome for nonprofits. Resource sharing and open dialogue among partners and other nonprofit organizations will be critical for developing future portfolios. Collaborating with other nonprofit organizations on where to develop can help spread impact and have the benefit of added security, Hawes suggested, because nonprofits can assist each other in property management, preserving affordable housing, and protecting the West End from outside interests.[74]

Milwaukee Nonprofit Works To Increase Homeownership

A 2022 Wisconsin Policy Forum study compared homeownership inequities among 11 U.S. cities and found that Milwaukee had the largest racial disparity in homeownership — a difference of 26.9 percentage points in owner-occupancy rates between White households and combined Black and Latinx households.[75] Since 2010, Milwaukee has been losing 1,000 minority homeowners per year because of investors who target minority communities for home purchases and convert owner-occupied housing to rental housing.[76] Approximately 40 percent of Milwaukee homes listed at $125,000 or less are purchased by investors, who quickly convert them

to rentals.[77] In 2022, 3 out-of-state investor companies purchased approximately 400 Milwaukee homes.[78] These investors often make cash offers with zero contingencies, outcompeting individual buyers with traditional financing who may want a home inspection before purchase.[79]

Launched in 1997, Acts Housing (Acts) is a nonprofit housing organization working to reverse these trends in Milwaukee through homebuyer coaching and lending services for LMI households. In 2021, Acts began developing its strategic plan, and with board approval in January 2022, the nonprofit decided to expand its real estate department to increase the number of acquisitions. In spring 2022, the Community Development Alliance approached Acts to develop an acquisition fund, which became part of a broader strategy to increase Black and Latinx homeownership in Milwaukee and a key component of the city's Collective Affordable Housing Plan.[80] Acts launched the homeowner acquisition fund in summer 2022 and set a goal to purchase 100 single-family homes and duplexes per year and resell them to LMI households for $90,000 to $140,000.[81] Acts' goal for the fund is to raise $11 million for property acquisition, utilities, insurance, and operational support. Most of the financial support for the acquisition fund will come from philanthropic organizations. In August 2022, the Zilber Family Foundation issued Acts a $1 million grant, which Acts used to hire the staff needed to launch the fund. As of September 2022, the nonprofit had received a $2 million award from Wells Fargo, and the city of Milwaukee's Housing Trust Fund and Milwaukee County had contributed $2.5 million each. The remaining $3 million likely will come from other foundations or banks. Dorothy York, vice president of real estate at Acts, explained that the funds collected thus far are being allocated toward one-time startup costs. The acquisition fund will be self-sustaining because Acts will sell the properties it acquires, and the funds generated from property sales will be used to purchase more properties.[82]

Photo courtesy of Acts Housing

Acts Housing helps prospective homebuyers achieve homeownership through HUD-certified homebuyer education courses, financial counseling, downpayment assistance, and loan programs.

Making Homeownership a Reality

According to York, a significant barrier to homeownership in the Milwaukee area is the shortage of affordable homes. Acts estimates that approximately 17,000 minority households in the Milwaukee area want to purchase a home, but only approximately 1,500 homes in the more affordable $125,000 price range are available each year. As the acquisition fund is brought to scale, Acts will be able to reserve several homes at once for families to purchase when they are ready. In addition to acquiring homes, Acts prepares prospective homebuyers for homeownership through its homebuyer program, which includes HUD-approved homebuyer education courses, homebuyer coaching, rehabilitation coaching, downpayment assistance, and loan programs. These services predate the acquisition fund and will continue to be critical tools to help families become homeowners. York explained that these efforts must work in concert because clients must be ready to purchase and maintain a home, and, at the same time, an inventory of affordable homes must be available for them.[83]

York noted that word of mouth is one of the most effective methods for potential homebuyers to learn about Acts' homebuyer program. Clients who have purchased a house and worked with Acts often share information about their homebuying experience with friends and family members. In addition,

Photo courtesy of Acts Housing

Acts Housing's homebuyers are required to stay in their homes for at least 5 years, which enables them to increase wealth through home equity.

social media platforms and radio stations have helped many families become aware of the services that Acts offers. Senior staff members discuss the organization on local radio shows and answer questions about services, which generates interest from potential homebuyers. Real estate agents, local banks, and community partners also refer families to the nonprofit.[84]

Prospective buyers interested in purchasing a house through Acts must first attend a virtual homebuyer orientation session to learn more about the organization's homebuyer program, services, and timelines. Next, clients must set up an online homebuyer portal and pay for a credit report.[85] Clients then complete a HUD-approved homebuyer education course, which has been a longstanding component of Acts' homebuyer program. The homebuyer education course covers topics such as financial management, affordability, occupancy, and foreclosure prevention. Clients who complete all the modules will be connected to an Acts homebuyer coach to discuss their finances and overall readiness to purchase.[86]

The homebuyer coach's role is to guide clients on their journey to homeownership by removing barriers and developing an action plan to help clients achieve their goals. Although clients must have a consistent monthly income, no income requirement or income verification process is needed to participate in the program. The homebuyer coach helps families manage their finances and build a downpayment by adjusting their budgets and creating debt repayment plans.[87] Acts connects clients to the Milwaukee Home Down Payment Assistance Program, which offers forgivable grants of up to $5,000 to purchase a home in the city of Milwaukee and up to $7,000 to purchase a home in the city's community development block grant area. Acts also receives funding from the Housing Cost Reduction Initiative administered by the Wisconsin Department of Administration's Division of Energy, Housing and Community Resources to assist homebuyers with downpayments, closing costs, and gap financing.[88]

An Acts' subsidiary, Acts Lending, provides mortgage and rehabilitation loans to families purchasing homes that are vacant, foreclosed, or in need of significant repair. Acts Lending was founded in 2013 in response to the fallout of the Great Recession, when many banks refused to lend to LMI families wishing to purchase distressed homes. Acts Lending's maximum loan amount per homebuyer is $75,000 to cover the purchase and rehabilitation of the home. The house must need a minimum of $20,000 in repairs to qualify. Families can use financing from Acts Lending to purchase their house from available inventory attained through Acts' acquisition fund and then renovate with the help of an Acts rehabilitation coach, who helps clients choose contractors, understand the process of pulling permits, collect bids, review contracts,

and assess progress.[89] Unlike traditional banks, Acts Lending will accept some nontraditional lines of credit. Acts also helps families searching for a home that is move-in ready arrange financing through bank partners. According to York, many bank partners have examined Acts' portfolio and determined that, in terms of the number of families repaying their loans on time, the nonprofit has actually outperformed banks. Traditional banks "looking at our portfolio have realized we're really preparing people for homeownership and for that financial responsibility," York explained, and they have begun offering financing to families who have completed Acts' homebuyer program. Most families (75%) who participate in the homebuyer program purchase homes that are move-in ready with traditional bank financing. The remaining 25 percent of homebuyers purchase homes with financing from Acts Lending to rehabilitate homes in need of repairs. York stated, "It's not just about getting people into houses but [also] getting them into houses that they can maintain and stay in as long as they choose to be there."[90]

Early Progress

Acts is striving to transform single-family rentals into owner-occupied homes. "There's a [night and] day difference [in] how people approach a home that they own versus a home that they rent…. When you own a home, you stay longer, [and] you stay in that community longer. You get to know the other people in the community," York said.[91] Families who purchase homes through Acts must stay at least 5 years, which not only can help stabilize the community but can also increase their home equity. Through the acquisition fund, Acts will be able to compete with institutional investors by making cash offers without inspections or contingencies, leading to quick closings on properties. Holding houses will allow Acts to slow the pace of outside investor purchases, enabling families who want to make an offer with contingencies to still purchase a house.[92]

In 2021, 305 buyers purchased homes through Acts. Acts' new homeowners were predominantly women-headed households (65%), and women also made up most of the homebuyers (75%) who purchased tax-foreclosed homes. In 2021, Acts invested a total of $42.6 million to purchase and help families renovate housing. As of August 2022, more than 1,200 families had begun the homebuyer counseling process, paid for a credit report, and met with their homebuyer coach at least once. As of August 2022, a total of 198 families had purchased homes through Acts; according to York, Acts is on track for 2022 to surpass the number of families who purchased homes through the organization in 2021.[93]

As of September 2022, Acts had acquired two homes through its acquisition fund, and two additional homes were under contract. Although the acquisition fund is still in its early stages, Acts aims to acquire batches of houses rather than one house at a time to meet its goal of 100 houses per year. As of November 2022, Acts had hired three new staff who can bid, view houses, and support the operations of the acquisition fund. Once Acts has an inventory of houses, it will need to manage administrative aspects such as connecting utilities and paying for home insurance.[94]

Conclusion

Investors seeking to maximize profits can outbid individual homebuyers and put further pressure on an already tight affordable housing market. The work of nonprofit housing organizations such as ANDP, HPI, and Acts Housing to acquire homes in distressed neighborhoods is critical to combating investor practices and preserving affordable homeownership opportunities for LMI households. By renovating homes and offering assistance with downpayments and closing costs, homebuyer education, and counseling programs, these organizations are further reducing barriers to homeownership, which is key to stabilizing neighborhoods, closing the wealth gap, and increasing equity. Rising interest rates can push homeownership further out of reach for many buyers, however, so examining ways to preserve affordable rental housing is an equally important goal to give families the opportunity to save for future homeownership. Collaboration and resource sharing across nonprofits, the public sector, and social impact investors will be vital to sustaining progress. EM

[1] James A. Crowder Jr., Chris Schildt, and Rick Jacobus. 2021. "Our Homes, Our Communities: How Housing Acquisition Strategies Can Create Affordable Housing, Stabilize Neighborhoods, and Prevent Displacement," 10–1.

[2] Dan Immergluck. 2022. *Red Hot City: Housing, Race, and Exclusion in Twenty-First Century Atlanta,* Oakland: University of California Press, 153.

[3] Joint Center for Housing Studies of Harvard University. 2022. "State of the Nation's Housing: 2022," 12.

[4] U.S. Census Bureau. "Demographic Characteristics for Occupied Housing Units," 2016-2020 American Community Survey 5-Year Estimates **(data.census.gov)**. Accessed 4 August 2022.

[5] Atlanta Neighborhood Development Partnership, Inc. "Our Work" **(www.andpi.org/ourwork)**. Accessed 4 August 2022.

[6] Atlanta Neighborhood Development Partnership, Inc. "About ANDP" **(www.andpi.org/about)**. Accessed 19 September 2022.

[7] Atlanta Regional Commission, Piece by Piece Foreclosure Response Initiative. n.d. "Overview of NSP 1 Implementation and Best Practices in Metro Atlanta," 4.

[8] John O'Callaghan and Mandy Eidson. 2021. "Tackling Vacancy and Abandonment: Strategies and Impacts after the Great Recession" in *Tackling Vacancy and Abandonment: Strategies and Impacts after the Great Recession,* Robert E. Finn, Lisa Nelson, Sarah Stein, eds. Center for Community Progress, the Federal Reserve Bank of Cleveland, and the Federal Reserve Bank of Atlanta, 154.

[9] Joint interview with George S. Burgan and Jay Perlmutter, 27 September 2022.

[10] "Nonprofit Organizations and Governmental Entities Program Guidelines," U.S. Department of Housing and Urban Development website **(www.hud.gov/program_offices/housing/sfh/np/sf_np_guideln)**. Accessed 9 August 2022; "HUD-Approved Nonprofit (Roster)," U.S. Department of Housing and Urban Development website **(entp.hud.gov/idapp/html/f17npdata.cfm)**. Accessed 9 August 2022.

[11] O'Callaghan and Eidson, 154–5; Joint interview with George S. Burgan and Jay Perlmutter.

[12] Joint interview with George S. Burgan and Jay Perlmutter.

[13] "Capital for Community Development," Atlanta Neighborhood Development Partnership, Inc. website **(www.andpi.org/alfproducts)**. Accessed 5 October 2022.

[14] "Capital for Community Development: ANDP Loan Fund," Atlanta Neighborhood Development Partnership, Inc. website **(www.andpi.org/alfcollaborations)**. Accessed 5 August 2022.

[15] Atlanta Neighborhood Development Partnership, Inc. n.d. "Addressing Metro Atlanta's Affordable Housing Crisis: The ANDP Loan Fund"; Email correspondence

with George S. Burgan, 2 November 2022.

[16] O'Callaghan and Eidson, 158; Email correspondence with George S. Burgan, 2 November 2022.

[17] Joint interview with George S. Burgan and Jay Perlmutter.

[18] Ibid.

[19] "Home South DeKalb," Atlanta Neighborhood Development Partnership, Inc. website **(www.andpi.org/hsd-overview)**. Accessed 5 August 2022.

[20] Immergluck, 155.

[21] "Home South DeKalb"; Joint interview with George S. Burgan and Jay Perlmutter; Email correspondence with George S. Burgan, 2 November 2022.

[22] Joint interview with George S. Burgan and Jay Perlmutter; "2019 in Review: Home South DeKalb," Atlanta Neighborhood Development Partnership, Inc. website **(www.andpi.org/dekalb)**. Accessed 5 August 2022.

[23] "Closing the Gap: ANDP to Develop 2,000 Affordable Homes by 2025," Atlanta Neighborhood Development Partnership, Inc. website **(www.andpi.org/ctg)**. Accessed 4 August 2022; Joint interview with George S. Burgan and Jay Perlmutter; O'Callaghan and Eidson, 155.

[24] Joint interview with George S. Burgan and Jay Perlmutter.

[25] O'Callaghan and Eidson, 152.

[26] Joint interview with George S. Burgan and Jay Perlmutter.

[27] Ibid.

[28] Ibid; Redfin. "Atlanta Housing Market" **(www.redfin.com/city/30756/GA/Atlanta/housing-market)**. Accessed 7 October 2022.

[29] "Capital for Community Development: ANDP Loan Fund."

[30] Federal Home Loan Bank of Atlanta. n.d. "Affordable Housing Program: Homeownership Set-aside Program"; Joint interview with George S. Burgan and Jay Perlmutter; Email correspondence with George S. Burgan, 2 November 2022; Atlanta Neighborhood Development Partnership, Inc. 2019. "Creating Homeownership & Economic Opportunity: Study of Homeowner Savings, Retention, and Wealth Creation for ANDP Homebuyers in Metro Atlanta," 10; O'Callaghan and Eidson, 154.

[31] Ibid.

[32] Jeff Lazerson. 2022. "30-year mortgage rates soar to 6.7%, highest in 15 years." *Los Angeles Daily News,* 29 September; Freddie Mac. "Mortgage Rates Surpass Seven Percent" **(www.freddiemac.com/pmms)**. Accessed 31 October 2022; Joint interview with George S. Burgan and Jay Perlmutter.

[33] O'Callaghan and Eidson, 157; Joint interview with George S. Burgan and Jay Perlmutter.

[34] Jermaine Fowler. 2020. "The West End of Louisville (CA. 1835-)," *Black Past,* 21 April.

[35] Ibid; Oscar Perry Abello. 2018. "Louisville's West End Fighting to Own Its Future," *Next City,* 27 November.

[36] Fowler.

[37] Kentucky General Assembly. 2021. "House Bill 321, An Act relating to revenue."

[38] Fowler; Abello.

[39] Interview with Andrew Hawes, 27 September 2022.

[40] The Housing Partnership, Inc. "Our Mission" **(wearehpi.org/who-we-are/)**. Accessed 9 August 2022; Housing Partnership Network. n.d. "Creating Homeownership Opportunities for Long-Time West Louisville Residents"; "Lease Purchase Opportunities," The Housing Partnership, Inc. website **(wearehpi.org/your-new-home/buying-a-home/)**. Accessed 25 October 2022.

[41] Interview with Andrew Hawes; Andrew Hawes. 2018. "Beyond 9th Initiative." Kentucky Housing Corporation.

[42] "HUD-Approved Nonprofit Organizations and Government Entities," U.S. Department of Housing and Urban Development website **(www.hud.gov/program_offices/housing/sfh/np)**. Accessed 30 September 2022.

[43] Hawes; Interview with Andrew Hawes.

[44] Federal Deposit Insurance Corporation. n.d. "203(b) Mortgage Insurance Program."

[45] Interview with Andrew Hawes; "Homeownership," Kentucky Housing Corporation website **(www.kyhousing.org/Homeownership/Pages/default.aspx)**. Accessed 4 October 2022.

[46] Interview with Andrew Hawes.

[47] Housing Partnership Network.

[48] Ibid; The Housing Partnership, Inc. 2022. "Snapshot Report. Beyond 9th: Revitalizing West Louisville through Strategic Homeownership." Document provided by Marian Silliman, 28 September 2022.

[49] Hawes.

[50] The Housing Partnership, Inc. 2022; Email correspondence with Marian Silliman, 7 October 2022; Interview with Andrew Hawes.

[51] Interview with Andrew Hawes; Email correspondence with Marian Silliman, 7 October 2022 and 1 November 2022.

[52] Interview with Andrew Hawes.

[53] The Housing Partnership, Inc. 2022; Email correspondence with Marian Silliman, 31 October 2022.

[54] "Down Payment Assistance Program," Louisville-Jefferson County Metro Government website **(louisvilleky.gov/government/housing/down-payment-assistance-program)**. Accessed 4 October 2022; "Homeownership Program," Louisville Metro Housing Authority website **(www.lmha1.org/special_programs/section_8_homeownership_program.php)**. Accessed 4 October 2022; Office of Housing and Community Development. n.d. "Down Payment Assistance."

[55] Email correspondence with Marian Silliman, 31 October 2022.

[56] Hawes; Interview with Andrew Hawes; Email correspondence with Marian Silliman, 7 October 2022.

[57] The Housing Partnership Inc. 2022. "Make Your Friends Your Neighbors!" Facebook post. Accessed 4 October 2022; The Housing Partnership Inc. 2022. "We had fun Saturday at the Parkland Plaza Grand Opening, coordinated by the Center for Neighborhoods!" Facebook post. Accessed 4 October 2022; The Housing Partnership Inc. 2010. "Learn from the Best: HPI Homeowners Talk About Their Experience," YouTube video, 5 November. Accessed 31 October 2022.

[58] The Housing Partnership, Inc. "Board" **(wearehpi.org/who-we-are/board/)**. Accessed 4 October 2022.

[59] "Home Buyer Education," The Housing Partnership, Inc. website **(wearehpi.org/home-buyer-education/)**. Accessed 4 October 2022.

[60] Interview with Andrew Hawes; The Housing Partnership, Inc. 2022.

[61] The Housing Partnership, Inc. n.d. "Homebuyer Education & Financial Counseling Program"; "Lease Purchase Opportunities."

[62] The Housing Partnership, Inc. 2018. "2018 Annual Report," 5; 6.

[63] Email correspondence with Marian Silliman, 31 October 2022.

[64] Interview with Andrew Hawes.

[65] Ibid; Email correspondence with Marian Silliman, 31 October 2022.

[66] Housing Partnership Network; "Secondary Market Funding Source," Kentucky Housing Corporation website **(www.kyhousing.org/Homeownership/Future-Homebuyers/Pages/Loan-Programs.aspx)**. Accessed 4 October 2022.

[67] Interview with Andrew Hawes.

[68] Limestone Bank. n.d. "Affordable Housing Program"; Housing Partnership Inc. 2022. "Step Up. To a Home of Your Own"; "Down Payment Assistance Program," Louisville-Jefferson County Metro Government website **(louisvilleky.gov/government/housing/down-payment-assistance-program)**. Accessed 4 October 2022.

[69] The Housing Partnership, Inc. 2022; Email correspondence with Marian Silliman, 31 October 2022.

[70] Interview with Andrew Hawes.

[71] Ibid.

[72] Interview with Andrew Hawes; Freddie Mac.

[73] Interview with Andrew Hawes.

[74] Ibid; "203(K) Rehab Mortgage Insurance," U.S. Department of Housing and Urban Development website **(www.hud.gov/program_offices/housing/sfh/203k/203k–df)**. Accessed 30 September 2022; National Community Stabilization Trust. "About Homeownership Alliance" **(www.stabilizationtrust.org/homeownership-alliance/)**. Accessed 25 October 2022.

[75] Ned Littlefield, Joe Peterangelo, and Rob Henken. 2022. "Hitting Home: Milwaukee's homeownership inequities and how we compare to peer cities," Wisconsin Policy Forum, 5.

[76] Community Development Alliance. n.d. "Milwaukee's Collective Affordable Housing Plan: Process," 19; 26.

[77] Interview with Dorothy York, 23 September 2022.

[78] Talis Shelbourne. 2022. "ACTS Housing is launching an acquisition fund to combat investor landlord purchases in Milwaukee." *Milwaukee Journal Sentinel,* 8 August.

[79] Wisconsin Public Radio. 2022. "Milwaukee organization launching homeowner acquisition fund to help residents buy homes."

[80] Community Development Alliance, 15; 17; Acts Housing. "Our Process" **(actshousing.org/about/)**. Accessed 26 October 2022; Acts Housing. 2021. "Acts Housing Impact Report: January 1-December 31, 2021"; Interview with Dorothy York.

[81] Wisconsin Public Radio; Shelbourne.

[82] Shelbourne; Interview with Dorothy York; Wisconsin Public Radio.

[83] Ibid.

[84] Ibid; Acts Housing. "Work for Acts Housing!" **(actshousing.org/about/work-for-acts-housing/)**. Accessed 8 December 2022.

[85] "Homebuyer Counseling," Acts Housing website **(actshousing.org/acts-services/homebuyer-counseling/)**. Accessed 26 September 2022; "Homebuyer Program Virtual Orientation," Acts Housing website **(actshousing.org/start-now/)**. Accessed 26 September 2022.

[86] Interview with Dorothy York; Wisconsin Public Radio; "Online Homebuyer Counseling," Acts Housing website **(actshousing.org/acts-services/online-homebuyer-counseling/)**. Accessed 26 September 2022.

[87] Acts Housing. 2022. "Virtual Orientation Part 1," YouTube video, 9 March. Accessed 26 September 2022; Acts Housing. 2022. "Virtual Orientation Part 2 Homebuyer Coaching," YouTube video, 9 March. Accessed 26 September 2022; Acts Housing. "Work for Acts Housing!"

[88] Acts Housing. "Work for Acts Housing!"; "Milwaukee Home Down Payment Assistance," City of Milwaukee website **(city.milwaukee.gov/DCD/NIDC/MILWAUKEE-HOME-DOWN-PAYMENT-ASSISTANCE-PROGRAM)**; "Housing Cost Reduction Initiative (HCRI)," State of Wisconsin website **(energyandhousing.wi.gov/Pages/AgencyResources/hcri.aspx)**. Accessed 28 September 2022.

[89] Interview with Dorothy York; Acts Housing. "Work for Acts Housing!"

[90] Interview with Dorothy York.

[91] Ibid.

[92] Shelbourne; Interview with Dorothy York.

[93] Acts Housing 2021; Interview with Dorothy York.

[94] Ibid; Email correspondence with Claire Britcliffe, 1 November 2022.

Additional Resources

- "Capitalizing on Collapse: An Analysis of Institutional Single-Family Rental Investors" (2020), by Gregg Colburn, Rebecca J. Walter, and Deirdre Pfeiffer, examines corporate filings of publicly traded companies to better understand the characteristics and strategies of these firms. **journals.sagepub.com/doi/abs/10.1177/1078087420922910**.
- "Can We Prevent 'Dark Money' from Destroying Housing Opportunity?" (2022), by Denise Scott, identifies strategies that communities can use to preserve housing and neighborhood stability and protect themselves from predatory investment. **www.lisc.org/our-stories/story/can-we-prevent-dark-money-from-destroying-housing-opportunity/**.
- "Single-Family Market Rents and Institutional Investors" (2022), by Darryl E. Getter of the Congressional Research Service, outlines the market dynamics underlying institutional investor activity in single-family rental housing and addresses questions about the implications of their increased role. **crsreports.congress.gov/product/pdf/IF/IF12225**.
- *Manufactured Insecurity: Mobile Home Parks and Americans' Tenuous Right to Place* (2018), by Esther Sullivan, addresses the impacts of investor purchases of mobile home parks for homeowners. **www.ucpress.edu/book/9780520295667/manufactured-insecurity**.
- "Lease Purchase Failed Before — Can It Work Now?" (2015), by Sarah Edelman, Michela Zonta, and Julia Gordon, reviews the lease-to-own model, lessons learned from government and nonprofit programs, and recommendations for landlords of single-family rentals. **www.americanprogress.org/article/lease-purchase-failed-before-can-it-work-now/**.
- "The Detroit Housing Market: Challenges and Innovations for a Path Forward" (2017), by Erika C. Poethig, Joseph Schilling, Laurie Goodman, Bing Bai, James Gastner, Rolf Pendall, and Sameera Fazili, offers several strategies for reducing barriers to affordable homeownership and rental housing in Detroit through home equity protection, rehabilitation, lease-to-purchase, and shared equity programs. **www.urban.org/sites/default/files/publication/88656/detroit_path_forward_0.pdf**.
- "Opportunity to Purchase Policy Options for the City of Minneapolis" (2021), by Scott Bruton and Gretchen Nicholls, presents three options for an opportunity to purchase program in Minneapolis, examines citywide capacity for implementation, and reviews similar policies in other cities and states. **cnhed.org/wp-content/uploads/2021/01/Opportunity-to-Purchase-Policy-Options-for-the-City-of-Minneapolis.pdf**.
- "Gentrifying Atlanta: Investor Purchases of Rental Housing, Evictions, and the Displacement of Black Residents" (2021), by Elora Lee Raymond, Ben Miller, Michaela McKinney, and Jonathan Braun, finds a strong association between investor purchases of multifamily rental units and the displacement of African-American residents in Atlanta. **www.tandfonline.com/doi/full/10.1080/10511482.2021.1887318**.

For additional resources archive, go to **www.huduser.gov/portal/periodicals/em/additional_resources_2023.html**.

Evidence Matters

Editor: Sean Martin

Authors: Cameron Ehrlich (HUD), Tim McDonald (HUD), L. David Vertz (HUD) and Sage Computing staff

Discuss this issue on the *Evidence Matters* Forum at www.huduser.gov/forums. You can subscribe to *Evidence Matters* at www.huduser.gov/portal/evidence.html.

U.S. Department of Housing and Urban Development
HUD User
P.O. Box 23268
Washington, DC 20026—3268

PRESORTED
FIRST-CLASS MAIL
POSTAGE & FEES PAID
HUD
PERMIT NO. G—795

Official Business
Penalty for Private Use $300

Return Service Requested

Scan here for past issues

U.S. Department of Housing and Urban Development
Office of Policy Development and Research
www.huduser.gov ▪ 800.245.2691