Single-family rentals: Trends and policy recommendations

Ingrid Gould Ellen and Laurie Goodman

Introduction

In the context of considerable attention of websites and podcasts on single-family rental investments and concerns about large investors, Ingrid Gould Ellen (New York University) and Laurie Goodman (Urban Institute) in their Hamilton Project policy proposal underscore the need for transparency in ownership structures, propose that regulators impose additional requirements by scale and hold large-scale owners to higher standards, and recommend improving renovation financing for owner-occupants.

Gould Ellen and Goodman argue that focusing on who owns single-family rentals arguably distracts from the more important question of how to effectively address the housing shortage in the United States and boost the overall supply of homes through land-use reforms and targeted infrastructure investments.

The Challenge

Gould Ellen and Goodman show that single-family rentals tend to be smaller than single-family homes and are more likely to be found in the suburbs and in nonmetropolitan areas. Residents of single-family rentals are far more likely to be families with children than residents of multifamily rentals and are less likely to include an adult over the age of 65. The overall population of renters has become less white since 2011 but the racial differences between single-family homes and multifamily properties have remained steady over the past 10 years. According to the authors, single-family rentals have the potential to advance economic integration, given the lower average incomes of renters compared to homeowners.

The authors estimate that large institutional investors own a small share (just over 3 percent) of the single-family rental stock, though that share has grown. Institutional investors have a much larger presence in the multifamily rental market. The proposal shows that the investor share of single-family rentals is quite high in some markets, most notably in Atlanta, Birmingham, Charlotte, Indianapolis, Jacksonville, Phoenix, and Tampa.

Gould Ellen and Goodman claim that mega investors have changed their acquisition strategy considerably in recent years. In the early days, institutional investors mostly purchased homes through distressed sales by banks and servicers and sold them as is, with many of them requiring extensive repairs. The proposal shows that institutional investors tend to own newer properties in their concentrated markets, target rental neighborhoods with above average income for renters, and target homes that need repair. At the same time, institutional single-family rental properties tend to be larger than other single-family rentals.

The authors show that large institutional single-family rental investors generally operate in neighborhoods with a racial composition that mirrors their MSA but tend to be marginally overrepresented in Black neighborhoods and underrepresented in Latino neighborhoods. The authors claim that institutional single-family rental investors tend to target markets that have the potential for strong job growth, strong demand for rentals, and low overall housing supply versus demand.

Gould Ellen and Goodman suggest that Institutional investors may adopt a more systemized approach to charging late payment and other fees, appear to do more formal screening than smaller landlords, do more upfront repair, and rely heavily on in-house property management operations, supplemented with local subcontractors.

The Proposal

Gould Ellen and Goodman in their Hamilton Project proposal recommend to:

Adopt and enforce rental registries. Rental registries can speed up the allocation of rental assistance, monitor high rates of eviction filings, excessive fees, or property management deficiencies, and clearly identify the ultimate owners of individual buildings. The authors argue that every lease should be required to contain the name of the ultimate owner of the property and appropriate contact for maintenance and repairs. Registries should be publicly searchable and potentially include linked information about code violations and eviction history.

Impose additional requirements by scale. Gould Ellen and Goodman argue that policymakers should adopt stricter rules and regulations for larger-scale investors. The authors also urge policymakers to ensure that single-family homes owned by institutional investors are accessible to diverse renters by being required to (i) accept housing choice vouchers, (ii) accept rental security insurance in lieu of security deposits, (iii) provide renters with time flexibility in paying the security deposit or rent and disclose fees and fee increases transparently, and (iv) do more to enable tenants to build wealth (e.g., report rent payments to credit bureaus to allow renters to build credit), and (v) have a good cause for evicting a tenant. The authors also recommend that First Look policies offered by government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, and by the Federal Housing Administration (FHA) be expanded.

Improve renovation financing for owner-occupants. Under this proposal, changes in renovation financing by the FHA and the GSEs, Fannie Mae and Freddie Mac, could make it easier for homeowners to compete against institutional investors for properties that need repair.

The recommendations put forward in this Hamilton Project proposal are also applicable to large institutional investors in the multifamily properties market.

Questions and concerns

Do those investors take homes away from first-time home buyers? Gould Ellen and Goodman argue that there is no conclusive evidence that investor ownership does or does not crowd out first-time home buyers. The authors claim that institutional investors do not tend to compete with first-time home buyers since the former tend to buy homes that need more repairs. Importantly, some of the additions to the stock of single-family rentals owned by investors, particularly over the past few years, have been build-to-rent.

Do they raise home prices for the neighborhood? The authors claim that investors could distort local markets in the places where they are most active. Gould Ellen and Goodman suggest that an important topic for further research is to analyze the impact of these purchases on home prices and homeownership rates, specifically in those sub-markets where the institutional investors are the most concentrated.

How can policymakers encourage additional supply? Gould Ellen and Goodman suggest that policymakers can allow developers to bypass local zoning codes if local governments have not permitted enough housing (as in the case of Massachusetts Chapter 40B law) and allow individual owners to split their lots in two (as the California legislature recently did through SB 9). Under this proposal, policymakers can also allow individual owners to add accessory dwelling units (ADUs) as a matter of right, without being subject to minimum lot size or lot coverage restrictions; they can eliminate or limit setbacks and can relax parking requirements for homes within a half a mile of public transit.

The authors argue that the federal government could offer financial incentives to states to build more housing. Specifically, the federal government could condition the receipt of competitive funds for housing, transportation, and infrastructure; states must make demonstrable progress towards meeting regional housing needs, and in ensuring that the new housing is built in a range of communities and not just concentrated in lower-income areas.

What is the official definition of single-family rentals? Do they include only one-unit properties, or one- to four-unit properties? The authors argue that even though there is no official definition of single-family properties, the definition used will make a large difference in defining the percentage of the rental market that is classified as single-family.

What size should trigger heightened regulations? Gould Ellen and Goodman suggest that the goal of public policy should be to give more renters the advantages that would stem from these recommendations without unduly burdening small landlords and risking a contraction of supply. The authors argue that more thought should be given to what the minimum portfolio size should be to trigger these requirements.

Conclusion

This proposal shows that a growing share of single-family rentals are owned by institutional investors, though they still own a small share of single-family rentals in most markets. Gould Ellen and Goodman suggest that future research should continue to study the behaviors of institutional investor owners of single-family rentals as well as to examine the consequences of mergers of investors that lead to even larger portfolios.

The authors stress the need for policies to encourage the creation of more housing, and more diverse types of housing. The growth of the build-to-rent market is a hopeful sign that we can still add to the rental stock, and it is an opportunity to do so.

Under this proposal, it is also essential that policymakers consider the climate implications and adopt strategies to encourage the development of higher-density homes. Such development has the potential to reduce energy, allow older adults to age in their existing communities, and facilitate economic integration.