The Investor Next Door

Since the start of the millennium, investors have taken a growing interest in -- and share of -- residential real estate ownership, changing the dynamics of buying and owning a home.

Investors accounted for 11.3% of residential real estate sales in 2018, more than double the level in 2001 and the highest since data has been tracked.

Once upon a time, buying a house was all about securing a *home* -- one in which to live, raise a family, and possibly retire. Residential real estate investors were around, but they were mostly small and accounted for a negligible fraction of sales. Then came the "flippers" -- the buy/fix/sell crowd who were in it strictly for the money. Next came the large institutions like Blackstone Group LP, which snapped up tens of thousands of homes at bargain prices after the Great Recession. Meanwhile, the advent of short-term rental services -- apps like Airbnb and Vrbo -- enabled millions of homeowners to turn their homes into part-time hotels. This monetization of residential real estate has brought about a growing shift in home ownership. According to a new report by CoreLogic,[1] investors accounted for over 11% of residential real estate sales in 2018, more than double the level in 2001 and the highest since the data has been tracked.

These investors come in different forms. There are the flippers, who seek short-term gains by buying underpriced properties and quickly turning them around. There are the short-term landlords, who rent their properties out through online rental services. And there are the long-term landlords, who rent to long-term tenants. There are even traders, who buy and sell homes for different purposes using trading platforms, such as Entera, that enable them to build and trade a portfolio of homes online.

While institutions accounted for the bulk of activity after the recession, today, small investors -- those who purchased 10 homes or fewer -- make up the majority. These so-called "mom-and-pop" investors bought more than 60% of all investor-purchased homes in 2018, up from 48% in 2013.

Starters and High-Rent Districts

Investor activity has been particularly strong in the "starter-home" market, defined as homes priced in the bottom third of the local market. Last year, investors bought about one in five starter homes in the United States. That is about double the level of two decades ago.

Investor purchases were also higher in the east than west, with some markets such as Philadelphia and Detroit seeing over 20% of purchases from investors. In fact, the data indicates that investors are attracted to areas with tight housing markets where rents are relatively high compared to purchase prices.

Takeaways for Home Buyers

The growing use of residential real estate as an investment class does not necessarily change the fundamentals of buying a home. The bulk of transactions continue to be by owner-occupants. But it does call for increased scrutiny on the part of prospective buyers, especially in areas where investor ownership is high. Here are some tips both investors and owner-occupants may want to consider.

- Expect greater price competition, especially for underpriced properties in high-rent areas.
- Be prepared to compete with all-cash offers, which are common among institutional buyers. A mortgage preapproval can help. It will give you more leverage with sellers and help you in the event of a bidding war.
- Check the ownership status of neighboring properties. You probably don't want to buy a house that is surrounded by short-term rental properties -- so-called "party houses."
- Be sure to check the short- and long-term rental rules of the community or housing association you are considering. Many place restrictions on rentals.
- Check the ownership history of any property you are seriously looking to buy. Flipped properties may warrant closer inspection, as some may have stood unoccupied for extended periods of time.

[1]CoreLogic, *Special Report: Investor Home Buying*, June 20, 2019.