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Big Landlord Merger Sounds Scary but Probably Isn't

One of the many shifts endured by the housing industry during the Great Recession was the entry of **institutional** investors into the **single-family** housing market. Hedge funds and other Wall Street types bought up thousands of single family residences (SFRs), largely from lender inventories of foreclosed homes. There were worries in the moment about the competition this presented to potential owner-occupants, and concerns over how disastrous this might be down the road.   The difficulties inherent in scattered site property management could threaten neighborhoods, and what might happen once the housing market recovered and investors took their profits and ran, dumping thousands of properties on the market.

These fears, to all appearances, have been **unrealized**. The management issues were overcome, and the new owners, by and large, have hung on to their portfolios. Where they have sold, it has typically been to other investors or, in a bit of surprise marketing, to tenants who were interested in buying the homes they were occupying, sometimes with special financing and other inducements.

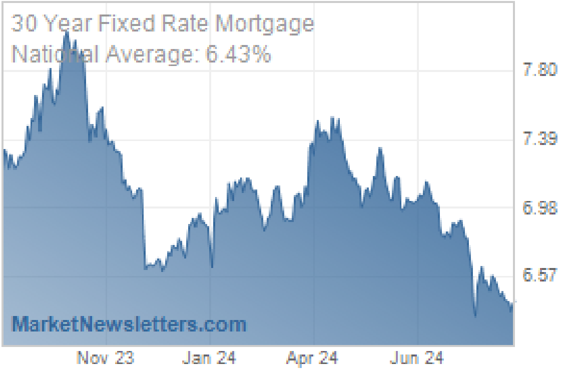
On August 10, two of the country's largest single-family landlords, Invitation Homes, and Starwood Waypoint Homes announced a **merger**. The combined company will own about 82,000 homes in 17 metropolitan areas in a deal valued at $4.3 billion.

According to an Urban Institute (UI) analysis of the merger, this has **stirred up new concerns**. Homeownership, while it has ticked up slightly in the last few quarters, is near an all-time low and inventories of available homes for sale are at historic lows. UI's Laurie Goodman quotes the Wall Street Journal's description of the merger as "a long-term corporate wager "that homeownership will no longer be an essential component of the American dream and that more people will choose to rent." Goodman said other voices have expressed concern about the plight of renters under landlords who "don't care about the carpet or the paint color."

She **does not share these concerns**.

There are more people renting by choice than there have been in other years and that this is likely to continue as more people delay marrying and starting families until they are well into their thirties, she says. Still, Wall Street's "bet" is not a sign that "millions of Americans no longer wish to own homes and access the wealth-building benefits of homeownership. And there's no reason

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

to think renters will be worse off under these landlords."

		Value	Change
Builder Confidence	Mar	51	+6.25%

She offers **four reasons** why this merger, or more generally investor-owned single-family homes, pose no threat to either homebuyers or renters.

- The large-scale investor portfolios account for only "a tiny sliver" of the housing market. Forty percent of the nation's housing stock, or 17.5 million units, is in the form of SFR. However, so called "mom and pop" landlords, those owning a single unit, hold 45 percent of SFR rentals, while 85 percent are held by those with 10 or fewer units. Institutional investors, like the giant company formed by this recent merger, own, at most, 0.7 percent of SFR rentals, less than 300,000 units.
- The portfolios of institutional investors are unlikely to grow quickly in the near future. The market sector did explode in the first few years when there was a large-scale availability of bargain-priced homes created by foreclosures. The ability of investors to buy them did serve to stabilize the market and put a floor on plunging prices, but those days are over. Prices are nearly back to their pre-crisis peak, and with the bargains gone, Goodman sees "the next logical step is for investors to seek economies of scale to cushion the fall in profitability." This will probably mean more consolidation in the SFR market and even the possibility that large investors will start acquiring properties from smaller ones.
- Most homebuyers would not want to purchase the homes in which investors are interested. Institutional buyers typically acquire homes needing about $20,000 in repairs. Those are the bargains and they have the financial, skills, and labor resources to make those repairs along with the clout to buy materials in bulk. An individual buyer, especially a first-timer isn't usually prepared to spend $20,000 on immediate repairs and upgrades and wouldn't be able to get as much bang for those bucks. Goodman says this means that, although institutional investors may have a cash advantage, they generally aren't competing for the same properties as first-time homebuyers.
- Institutional investors are likely to be fine landlords. Goodman sees little cause for concern on the part of tenants. These investments don't push rents higher; rent increases are the result of supply and demand. There is no credible evidence that institutions make worse landlords than the mom-and-pop companies either. Necessity and competition push investors to bring professional standards and methods in to match large apartment-building owners.

The Invitation/Starwood merger should remind policymakers that **SFR rentals are here to stay**, Goodman says, and they could be an important component of housing strategy. Affordable housing is becoming an imminent crisis, she says, and the government could encourage the SFR sector to help address this crisis. One way could be through more aggressive lending by the government sponsored enterprises (GSEs) in the SFR space, especially Freddie Mac, a major lender in the multifamily market. UI supported Freddie Mac in April when it faced many critics over its decision to back a $1 billion loan to Invitation Homes.

Goodman says we should remember that, despite the benefits that accrue from it, there is **no "ideal" homeownership rate**. It will ebb and flow with economic, demographic, and other factors. "Our goal should not be to make as many homeowners as possible but to ensure that any creditworthy person can become a homeowner when their financial means and other circumstances make them ready to do so." She adds that the difficulty of qualifying for a mortgage is one of the biggest impediments to the homeownership dream and, "The merger of institutional SFR investors poses no threat to this dream."