U.S. House of Representatives, Committee on Financial Services
Subcommittee on Oversight and Investigations

Written testimony for hearing: Where Have All the Houses Gone: Private Equity, Single-Family Rentals, and America's Neighborhoods

June 28, 2022

Chair Waters, Ranking Member McHenry, and Members of the Subcommittee, thank you for the opportunity to testify on the important issue of corporate investors and access to homeownership. It is an honor to be here before you this afternoon. I'm grateful for your continued leadership and attention on this issue.

My name is Jenny Schuetz. I am a Senior Fellow at Brookings Metro. The views expressed in my testimony are my personal views and do not reflect the views of Brookings, other scholars, officers, or trustees.

You asked me to address several aspects of the single-family rental industry, namely:

- How the expansion of the single-family rental industry impacts renters, prospective homebuyers, and communities; and
- Any relevant racial, ethnic, income, or demographic disparities.

Below I provide some larger context for current challenges to housing affordability and availability, and offer recommendations for how Congress can help address the needs of America's renters and homebuyers.

The growth of institutional investors is a symptom, rather than the cause, of extremely tight housing markets.

Congress and the Biden Administration are grappling with how to reduce the stresses placed on households by the rapidly rising cost of housing and other basic necessities. While it is tempting to point fingers at profit-seeking actions by specific companies or industries, the underlying causes of housing cost inflation are more complex. Addressing these causes will require sustained policy efforts from multiple angles. Focusing on the activities of a few companies will not solve the problems of housing affordability and barriers to homeownership.[1]

Rental housing in an attractive financial option for investors of all sizes and types because of market fundamentals: strong demand and limited supply. The past decade has seen increased demand for both rental and owner-occupied housing, due to job growth and rising incomes. Since the Great Recession, the U.S. has not built enough housing to keep pace with demand, leading to historically low vacancy rates and rapidly rising costs.[2] While pandemic-related

[1] For the purpose of this testimony, institutional investors are defined as any real estate purchasers other than individuals and public agencies. Institutional investors can take multiple legal forms, including corporations, limited liability corporations (LLCs), limited partnerships (LPs), real estate investment trusts (REITs), or non-profit organizations. Private equity firms are a subset of institutional investors.

[2] https://www.whitehouse.gov/cea/written-materials/2021/09/01/alleviating-supply-constraints-in-the-housing-market /

supply chain issues are a part of the problem, the underproduction of housing reflects a longer-term structural problem, especially in high-opportunity communities.[3]

The supply shortage, combined with strong demand, has put upwards pressure on housing costs. The median rent grew 16 percent from 2001 to 2019, while the median renter's income only grew five percent.[4] This makes first-time homeownership more difficult for two reasons: when renters spend a larger share of their monthly income on rent, it is harder to accumulate savings. Additionally, rising housing prices increases the amount of money needed for a downpayment. A growing number of high-income renters has increased demand for higher-end rental homes, underpinning some of the demand for single-family rentals.[5]

Under these market conditions, large institutional investors have several advantages in competing for homes over individual homebuyers, especially first-time buyers: deep pockets and ready access to capital markets allow them to outbid individuals. This can lead to crowding out in geographic submarkets where institutional investors are seeking to expand their portfolios.[6]

Private equity firms and other institutional investors benefit from tight housing supply, but they did not create the problem. Local governments across the U.S. have adopted policies that make it difficult to build more homes where people want to live. Zoning rules such as apartment bans and large minimum lot sizes decrease the amount of new construction, particularly of small, moderately priced homes. These policies—which directly reduce the supply of available homes and increase landlords' profits—are politically popular with many existing homeowners and local elected officials.[7]

Policy recommendations

The federal government has some policy levers that could help expand the supply of housing, particularly moderately-priced rental and for-sale homes. Congress should create financial incentives for local governments to revise their zoning in favor of small, moderately priced homes, and better integrate federal investments in housing, land use, and transportation. This should be supported with federal funding for technical assistance to local governments. These

---

[3] Chang-Tai Hsieh and Enrico Moretti. 2019. "Housing Constraints and Spatial Misallocation." *American Economic Journal: Macroeconomics* 11(2): 1-39; Joseph Gyourko and Raven Molloy. 2014. Regulation and Housing Supply. *National Bureau of Economic Research* working paper; Edward Glaeser and Joseph Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30. Jenny Schuetz. 2022. *Fixer Upper: How to repair America's broken housing systems*. Brookings Institution Press. U.S. Department of Housing and Urban Development, 2021, Eliminating Regulatory Barriers to Affordable Housing: Federal, State, Local, and Tribal Opportunities.

[4] Joint Center for Housing Studies at Harvard University. 2022. The State of The Nation's Housing.

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

[6] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky. 2019. Institutional Investors and the U.S. Housing Recover. Federal Reserve Bank of Philadelphia working paper. Joint Center for Housing Studies at Harvard University. 2022. State of the Nation's Housing. Carlos Garriga, Pedro Gete, and Athena Tsouderou. 2021. Investors and Housing Affordability. Working paper.

[7] Connor Dougherty. 2020. Golden Gates: Fighting for Housing in America. New York: Penguin Press. Katherine L. Einstein, David M. Glick and Maxwell Palmer. 2019. Neighborhood Defenders: Participatory Politics and America's Housing Crisis. Cambridge: Cambridge University Press.

types of actions already have bipartisan support in Congress and are included in the Biden Administration's Housing Supply Action Plan.[8]

High housing costs create more distress, and greater barriers to homeownership, for low-income, Black, Latino, and Native households

Rising housing costs create the greatest hardship for low- and moderate-income households. The poorest 20 percent of households everywhere in the U.S. spend more than half their income on rent, leaving them too little cash to pay for food, health care, transportation, and other necessities.[9] Housing cost burdens among poor households have been rising for several decades—pre-dating both the COVID-19 pandemic and the recent growth in institutional investors. Moderate-income renter households are also increasingly cost-burdened. Fundamentally, this is a problem of low-incomes and insufficient subsidies—only one in four eligible renters receives any federal housing subsidy.[10] Job losses during the pandemic exacerbated existing hardship, particularly for workers without a college education, Black and Latino households.[11]

Tighter access to credit since the Great Recession has raised the bar for first-time homebuyers, especially among lower-income households.[12] In the wake of the Great Recession, federal agencies enacted new consumer protections for homebuyers, such as requiring more transparent disclosure of key mortgage terms, and restricting certain risky loan characteristics.[13]

Black and Latino households continue to face higher barriers to homeownership. Only 45 percent of Black households and 49 percent of Latino households own their homes, compared with nearly three-fourths of white households.[14] Decades of discrimination in mortgage lending have prevented Black households in particular from enjoying the benefits of homeownership. White homeowners have been able to pass along wealth to their children—for instance, by assisting with down payments—while Black households have been systematically shut out of this intergenerational wealth-building.[15] More than 50 years after the 1968 Fair Housing Act, evidence of housing discrimination can still be found in mortgage lending.[16]

---

[8] U.S. Congress, Senate, "Yes In My Backyard Act," S.B. 1919, 116th Cong., 1st sess., introduced in Senate on June 20, 2019. U.S. Congress, Senate, "Housing Supply and Affordability Act," S.B. 5061, 116th Cong., 2nd sess., introduced in Senate on December 17, 2020. https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/

[9] Jeff Larrimore and Jenny Schuetz. 2017. Assessing the severity of rent burden on low income families. Board of Governors of the Federal Reserve System FEDS Note. Edin & Schaffer

[10] Center on Budget and Policy Priorities. 2021. Policy Basics: Federal Rental Assistance. https://www.cbpp.org/research/housing/federal-rental-assistance

[11] Martha Ross and Nicole Bateman. 2021. https://www.brookings.edu/research/the-pandemic-hurt-low-wage-workers-the-most-and-so-far-the-recovery-has-helped-them-the-least/

[12] Lambie-Hanson et al. 2019. James Mills, Raven Molloy, Rebecca Zarutskie. 2016. Large-scale Buy-to-Rent Investors in the Single-Family Housing Market: The emergence of a new asset class. Real Estate Economics 47(2).

[13] https://www.consumerfinance.gov/ask-cfpb/what-is-a-qualified-mortgage-en-1789/
https://www.consumerfinance.gov/ask-cfpb/what-is-a-hud-1-settlement-statement-en-178/

[14] Joint Center for Housing Studies. 2022. State of the Nation's Housing.

[15] Neil Bhutta et al., "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," *Board of Governors of the Federal Reserve: FEDS Notes* (September 28, 2020).

[16] Andrew Hanson, Zackary Hawley, Hal Martin, and Bo Liu. 2018. Discrimination in mortgage lending: Evidence from a correspondence experiment. Journal of Urban Economics 92: 48-65. Marsha Courchane and Stephen Ross.

The persistent wealth gap leaves Black and Latino first-time homebuyers at a disadvantage when competing with institutional investors and white homebuyers. Research has found that neighborhoods where institutional investors purchase more single-family rental homes subsequently see higher rates of eviction and greater loss of Black residents.[17]

Policy recommendations

Congress has several channels to relieve financial stress on renter households and lower barriers to first-time homeownership. The most direct, straightforward way to help low-income households afford decent-quality housing and accumulate savings is to give them money. Increasing funding for housing vouchers, renewing the expanded Child Tax Credit, or making the Earned Income Tax Credit payable monthly instead of annually would all be effective tools to support financial stability for low- and moderate-income households.[18] Congress could also create federal tax incentives to better target first-time homebuyers. Encouraging households to set aside short-term savings would increase financial stability for both renters and homeowners.[19]

Rental housing quality and tenant legal protections are important to renter households' well-being regardless of who owns the property

Policymakers should be equally concerned about poor quality housing and fair treatment of tenants, regardless of whether a rental property is owned by a private equity firm, mom-and-pop landlord, public agency, or non-profit organization.[20] Media reports on poor quality housing and maintenance among high-profile private equity firms are not sufficient evidence to conclude that institutional investors are consistently worse for tenants than other types of landlords.

Some key data gaps make it hard to compare the behavior of private equity firms and large institutional investors to other types of landlords. Administrative records from local tax assessors allow researchers to identify legal entities that own individual properties, but because owners often create separate LLCs for each property, it is often difficult to trace these back to parent companies.[21] HUD's Rental Housing Finance Survey provides insights into landlord size and

---

2019. Evidence and Actions on Mortgage Market Disparities: Research, Fair Lending Enforcement, and Consumer Protection. Housing Policy Debate 29(5): 769-794.

[17] Elora Lee Raymond, Ben Miller, Michaela McKinney, and Jonathan Braun. 2021. Gentrifying Atlanta: Investor Purchases of Rental Housing, Evictions, and the Displacement of Black Residents. Housing Policy Debate. Elora Raymond et al. 2016. Corporate Landlords, Institutional Investors, and Displacement: Eviction rates in single-family rentals. Working paper.

[18] Schuetz. 2022. Fixer Upper, Chapter 4.

[19] Jenny Schuetz. 2021. https://www.brookings.edu/research/rethinking-homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/

[20] https://www.propublica.org/article/when-private-equity-becomes-your-landlord; https://www.inquirer.com/news/philadelphia-housing-authority-overcrowding-fairmount-fire-victims-20220114.html; https://dc.curbed.com/2019/2/26/18241322/dc-public-housing-authority-dcha-finance-conditions; https://www.nytimes.com/2017/05/23/magazine/jared-kushners-other-real-estate-empire.html?hpw&rref=magazine&action=click&pgtype=Homepage&module=well-region&region=bottom-well&WT.nav=bottom-well&_r=0

[21] Adam Travis. 2022. Assessing the Landscape of Corporate Ownership. Joint Center for Housing Studies at Harvard University webinar.

structure for various rental property types, but has little information on property conditions. The American Housing Survey, jointly administered by HUD and the Census Bureau, is the best data source on housing quality, but does not provide detailed information on property owners. Better coordination of these two surveys could provide federal, state, and local policymakers with information needed to address housing quality concerns.

Beyond housing quality and maintenance issues, one possible concern is that a small number of landlords can accumulate a substantial market share of rental properties within small geographic areas or other submarkets. This type of concentration allows landlords greater ability to set higher rents, because renter households have fewer alternatives to choose from. Although large institutional investors own a small share of the national rental stock, they are more concentrated in some metro areas and neighborhoods.[22] The concern over concentrated property ownership is not unique to private equity and other nationally prominent firms; locally-owned real estate companies—or even individual investors—can acquire enough properties within a neighborhood and/or price niche to have some market power.[23]

Policy recommendations

Currently, the federal government has a very limited role in supporting housing quality and landlord-tenant relationships, but it could provide more resources to state and local governments to assist their efforts. State governments set most of the legal parameters for rental housing, leading to wide variation across states in renter protections.[24] Housing code enforcement is carried out at the local level, so the resources available to local governments—such as the number of building inspectors—can affect how consistently landlords are required to address maintenance issues.

Better data collection from federal agencies could increase transparency of rental property ownership and monitor concentrated ownership within local markets. Local and state governments would benefit from federal financial support and technical assistance in setting up rental registries. Federal agencies, such as the Consumer Financial Protection Bureau, could be enlisted to monitor actions of large firms with rental portfolios that extend across multiple states.

Single-family rentals are—and have always been--an important part of housing ecosystem

Homeownership is not the preferred choice for all Americans, or at all points in any person's life. Most Americans will rent and own at different stages of life. Having a diverse set of tenure choices and structure types, in diverse neighborhoods, is important for economic opportunity: families with children may want more space and access to high-opportunity communities where they can afford monthly rent but cannot afford to purchase. Some older households may switch to renting to limit maintenance obligations; the number of renter households over age 65 increased by 14 percent from 2009 to 2019, and is projected to continue growing as the population ages.[25] Zoning constraints on apartments and townhouses already make it hard to

[22] Lambie-Hanson et al. 2019.

[23] Brian McCabe and Eva Rosen. 2020. Eviction in Washington DC: Racial and Geographic Disparities in Housing Instability. Georgetown University working paper.

[24] https://www.law.cornell.edu/wex/landlord-tenant_law

[25] Joint Center for Housing Studies. 2022. America's Rental Housing.

build rental housing in high-opportunity places, as do indirect rules like occupancy limits. The emerging build-to-rent single-family market—primarily financed by large institutional investors—could help add badly needed homes and expand neighborhood choice for renter households.[26]

Policymakers should make it easier for households at all income levels to access high-opportunity neighborhoods through diverse housing types, both rental and for-sale, at a wide range of prices and rents.

Conclusion

Congress is understandably concerned with easing the financial pressure of high housing costs. However, targeting a small subset of landlords without addressing underlying market conditions and policy gaps will not meaningfully improve the well-being of renters and prospective homebuyers. Private equity firms, like other real estate investors, are profit-maximizing companies that respond in predictable ways to financial incentives created by market forces and by public policies. It would be difficult to write regulations that directly exclude specific firms from purchasing real estate—and doing so would likely create some negative consequences.[27] Rather, Congress and state and local policymakers should focus on identifying and discouraging bad practices and behaviors—poor quality housing and tenant services—performed by any type of landlord. Broader efforts to encourage more construction of moderately priced homes and increased financial support for low-income households are also essential policy actions.

Thank you again for the opportunity to testify virtually here today on this important issue. I look forward to answering your questions.

[26] https://www.nytimes.com/2021/10/22/realestate/single-family-rentals.html

[27] Agarwal et al (2021) find that Hong Kong's imposition of a tax on short-term speculators did decrease the investor purchases of homes but did not improve housing affordability, and removed an important source of liquidity for property owners wanting to sell. Sumit Agarwal, Kwong Wing Chau, Maggie Rong Hu, and Wayne Xinwei Wan. (2021). Tobin Tax Policy, Housing Speculation, and Property Market Dynamics. ABFER working paper.