These Cities Aim to Slow Nationwide Surge in Single-Family House Rentals

Public Officials Across the Country Consider Regulations To Stop Proliferation As Costs Climb

A Christopher Todd Communities single-family rental neighborhood in Goodyear, Arizona. (Christopher Todd)

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If Anthony Ford, mayor of an Atlanta suburb, had his way, development of single-family rental homes would be stopped completely in his city.

The City Council in Stockbridge, Georgia, passed a moratorium on building single-family homes for rent last year. It's just one such restriction across the country that addresses the growing real estate investment property type that affordable housing advocates say is making homeownership harder to achieve.

"We're interested in families growing their wealth and owning their own home," Ford, a retired U.S. Army colonel, told CoStar News. "If they are renting on a continual basis, they may not be as responsible and productive as if they were owners."

Cities and other government entities across the country have been increasingly pushing back against the influx of investors snapping up existing single-family houses or building new ones for rental purposes only. More investors have entered the single-family home rental market as housing is in short supply, boosting rents and prices and capitalizing on shifting demographics and housing preferences in the pandemic. Just this week, Swiss investment giant Partners Group Holding AG announced plans to buy more than 3,500 single-family rental houses across the Sun Belt for $1 billion, its second such investment in six months.

One in 6 single-family houses sold in the second quarter last year were bought by investors, with as many as 1 in 4 in some markets, according to the Biden administration, which loosened lending restrictions in subsequent months to try to address affordable housing concerns and the housing shortage.

The roots of major investors buying up single-family homes to rent stretch back to the housing industry collapse in 2008, with purchases of large swaths of homes that had been foreclosed on as well as subdivisions that had turned into veritable ghost towns when builders walked away. In that recession's wake, some buyers decided homeownership was too risky, while others said debt payments from increasingly steep costs of attending college were too much to allow them to save for a down payment on a house.

The pandemic also increased for some the desirability of not being tied down to a single area and highlighted the advantages of renting a lawn and the added space of a house instead of smaller quarters in major downtowns. Single-family rental investments rose significantly over the past year, with homebuilders teaming up with single-family rental companies and some major deals being backed by pension funds. The business has attracted billions of dollars from a slew of private equity firms and institutional investors such as Blackstone Group, Brookfield, Ares Management and KKR, with higher costs concerning elected officials.

Officials Push Back

Newark, New Jersey, is the latest place to address corporate entities acquiring homes within its borders, arguing that the purchases result in rising rents and less affordable housing.

Newark Mayor Ras Baraka announced a package of initiatives that includes imposing new fees on owners of non-rent-stabilized properties who raise rates by more than 5% annually and crafting a policy to offset the effects of private homes being scooped up by companies.

In Georgia, state legislation was introduced to prevent municipalities from regulating land use for developing rental-only subdivisions, and it includes punitive financial consequences such as denying funding and grants from the state.

But the industry has pushed back as well. The National Rental Home Council, an 8-year-old organization, has been ardently arguing against efforts to limit such rentals and says that single-family investor purchases in recent quarters represent a small part of overall single-family home sales.

"This is an industry working continuously to provide more options for stabilized, quality, and affordably-priced housing in neighborhoods that should be accessible to everyone," said David Howard, executive director of the National Rental Home Council, in a statement last month. "Restricting access to neighborhoods and communities simply because a family chooses to rent is not something to encourage or tolerate."

Institutional investors represented 9.1% of all single-family sales in the fourth quarter, but that dropped to 4.1% in the first three months of the year, according to residential property data firm Attom. Of the top five states with enough data to analyze sales, investors represented a small percentage of overall single-family home sales in the first quarter: 10.7% in Arizona, 9.3% in Georgia, 8.7% in North Carolina, 8.4% in Nevada and 6.1% in Texas, according to Attom.

"For those people who still believe the theory that institutional investors are buying up all the available inventory," first-quarter data shows "a pretty strong rebuttal," Rick Sharga, executive vice president of market intelligence for Attom, said in a statement.

Other Concerns

The single-family rental home industry has long been dominated by mom-and-pop investors with fewer than 10 homes in their portfolios. But lately investors have been focused on building entire neighborhoods of homes to rent, known as build-to-rent, an initiative that's expected to benefit from soaring mortgage rates. The neighborhoods often are stocked with the latest amenities and located in areas with good school districts.

Christopher Todd Communities, a single-family rental firm based in Mesa, Arizona, and Scottsdale, Arizona-based national homebuilder Taylor Morrison Home Corp. have build-to-rent neighborhoods in various stages of development across the country. A year ago, Miami-based homebuilder Lennar Corp. created Upward Venture America with $1.25 billion from institutional investors to buy $4 billion of new single-family rental homes and townhouses across the country.

Institutional investors have an opportunity to fill a gap with build-to-rent because it adds to housing stock while buying up existing scattered housing doesn't, said Sabrina Unger, managing director of research and strategy for American Realty Advisors, during a webinar with nonprofit commercial real estate organization Urban Land Institute.

But the "not-in-my-backyard" view has been growing, Unger said, often along with affordability concerns about the neighborhoods where some of the investors have been buying.

The Port of Greater Cincinnati Development Authority, a government entity, bought 194 rental homes previously owned by Los Angeles-based Raineth Housing last year before a private investor could snap them up. It plans to renovate the houses and sell them to the mostly low- to moderate-income tenants of the homes. The move was one of the most aggressive yet to keep private single-family rental investors at bay and to allow tenants to stay in their homes.

"Very simply, these investors are more concerned with profits than they are with people," Laura Brunner, CEO of The Port of Greater Cincinnati Development Authority, said in a statement when it bought the homes.

Newark's effort to rein in single-family rentals takes into account a report, “Who Owns Newark? Transferring Wealth from Newark Homeowners to Corporate Buyers,” that was written by David Troutt, director of the Rutgers Center on Law, Inequality and Metropolitan Equity, known as CLiME. The study found that almost half of all real estate sales in Newark were made by institutional buyers.

“In cities and even suburbs across America, institutional investors are eroding the American dream of home ownership as they convert owner-occupied homes into corporately owned rental units,” Newark Mayor Baraka said in a statement. “In Newark, where we have worked hard for years to expand home ownership, we will do everything possible to combat this dangerous trend. The CLiME report signals that Newark must create stronger and more equitable laws, regulations, and policies to ensure that residents share in the growth of our city.”

Coordinating Policies

Baraka said he plans to ask New Jersey Gov. Phil Murphy, state legislators and the City Council to create a coordinated state and local policy to address the effects of large-scale corporate ownership of private homes.

On the local level, the mayor plans to submit legislation to the council to: make it unlawful to solicit offers without residents’ permission, such as through mail, knocking on doors or phone calls; bring more transparency to limited liability companies that are purchasing private properties to keep them accountable; and impose fees and mandate landlord registrations for property owners and landlords that increase rents above 5% year over year in residences not rent stabilized.

These newly mandated fees will be directed to the city’s Affordable Housing Trust Fund and used to fund the creation of new affordable rental and homeownership opportunities for Newark residents. Dallas made a similar decision five years ago when it imposed fees on single-family rentals, directing proceeds toward an affordable housing fund.

David Noguera, director of Dallas' department of housing and neighborhood revitalization, told CoStar News he's researching options to address anti-displacement housing measures in the city, part of the fourth-largest U.S. metropolitan area.

One of those options explored in a recent City Council meeting was Dallas potentially putting a cap on how much property real estate investors could buy. To become official, Dallas would have to adopt its own policy with City Council approval or put the matter before state legislators.

Meanwhile, Baraka wants to add a deed restriction to all city-owned and land bank properties, which will require the properties to be affordable. He also plans to convene a meeting in the coming month with investors, developers of color and community development corporations to develop additional strategies on how Newark can work to invest in underinvested and disinvested communities.

“Our report shows that the national trend of [investors] buying of one- to four-unit homes in predominantly Black neighborhoods is acute in Newark where almost half of all real estate sales were made by institutional buyers,” Troutt said in a statement. “This trend grew out of the foreclosure crisis that wiped out significant middle-class wealth in Newark," he said, adding that the mayor's "actions are important steps toward maintaining affordability of rents and homeownership, discouraging speculation and demanding transparency of ownership.”

CoStar News reporter Candace Carlisle contributed to this article.