BlackRock is Not Ruining the US Housing Market
Derek Thompson, The Atlantic, 6.17.21

The BlackRock saga sounds grotesque. At a time of maximal desperation in the U.S. housing market, giant investment banks, such as BlackRock, are buying up some of the few houses left on the market, boxing families out of the American dream. They're turning these homes into rental units that they will, in some cases, leave to decay. Such faceless institutional investors are reportedly more likely than ordinary "mom and pop" landlords to aggressively raise rent—and evict people who can't afford it.

Americans don't agree about much, but they seem united in believing that this is a despicable state of affairs. In the past few days, institutional housing investors have drawn criticism from Fox News as well as left-wing commentators.

But this outrage is misdirected. If we have any chance of fixing the completely messed-up, unaffordable U.S. housing market, we should direct our ire toward real culprits rather than boogeymen.

The U.S. has roughly 140 million housing units, a broad category that includes mansions, tiny townhouses, and apartments of all sizes. Of those 140 million units, about 80 million are stand-alone single-family homes. Of those 80 million, about 15 million are rental properties. Of those 15 million single-family rentals, institutional investors own about 300,000; most of the rest are owned by individual landlords. Of that 300,000, BlackRock—largely through its investment in the real-estate rental company Invitation Homes—owns about 80,000. (To clear up a common confusion: The investment firm Blackstone established Invitation Homes, in which BlackRock, a separate investment firm, is now an investor. Don't yell at me; I didn't name them.)

Megacorps such as BlackRock, then, are not removing a large share of the market from individual ownership. Rental-home companies own less than half of one percent of all housing, even in states such as Texas, where they were actively buying up foreclosed properties after the Great Recession. Their recent buying has been small compared with the overall market.

Besides, BlackRock and investors like it aren't necessarily taking homes away from ordinary families. As the Vox reporter Jerusalem Demsas explains, institutional investors tend to buy homes that need significant repairs. That means they're often competing with other investors—individuals who buy houses to rent them out, as a side gig or a main gig—not with typical young couples who are looking to turn a key and walk into a finished house. Meanwhile, institutional investors are more likely than individuals to report making improvements to their rental holdings and spend more per unit.

If, contrary to that last point, real-estate investors are routinely flouting renters' rights and letting properties decay around their residents, the government should investigate them: It would be a mitzvah for the U.S. government to make a strong statement about protecting America's tens of millions of renters.

But before we follow the example of some countries in moving to block investment funds from buying real estate—for fear that banks are squeezing individuals out of the housing market and generally being extremely private-equity-ish in an economic sector that's supposed to be about basic needs—we should ask ourselves what exactly would change for middle-class families if we did. Millions of mom-and-pop investors would still be out there, buying millions of single-family houses and renting them out to millions of people. The overall texture of the U.S. housing market would remain the same.

Nothing in the BlackRock saga is central to America's larger housing problem, which is, simply stated: Where the hell are all the houses? A ton of people want to own new homes right now—including the largest crop of 30-somethings in American history. But single-family-home construction is in a rut, having fallen in the 2010s to its lowest levels in 60 years. The pandemic threw a few extra wrenches into home construction that will hopefully resolve themselves in the near future.

Far worse than corporations taking a few thousand units off the market for owners are the governments and noisy NIMBYish (*not in my backyard*) residents taking millions of units off the market for owners and renters alike—by blocking construction projects in the past few decades. (California alone has an estimated shortage of 3 million housing units.) From New York to California, deep-blue cities and states have amassed a pitiful record of blocking housing construction and failing to meet rising demand with adequate supply. Many of the people tweeting about BlackRock are represented by city councils and state governments, or are surrounded by zoning laws and local ordinances that make home construction something between onerous and impossible.

Through law and custom, the U.S. has encouraged people to buy and cherish their houses. But by asking Americans to see their homes as precious investment vehicles, these laws activate a scarcity mindset and sow the seeds of NIMBYism: Don't dilute my equity with new construction!

How can we encourage Americans to support more housing construction near where they live? Maybe the answer is … more single-family rentals. As the Bloomberg columnist Conor Sen points out, homeowners tend to look down on nearby construction, because more ample housing could drive down the cost of their property. But renters might celebrate nearby construction for the same general principle: Ample housing might hold down their rent.

In the arithmetic of online outrage—where big banks are evil, and landlords suck—nothing is more villainous than a big-bank landlord. But the larger villain in America's housing crunch isn't the faceless Wall Street Goliath overseeing your apartment building or house; it's the forces stopping any new apartment buildings or houses from existing in the first place: your neighbors, local laws, and local governments. If we can't see the culprit of America's housing crisis, that's because we're eager to look everywhere except in the mirror.

Derek Thompson is a staff writer at The Atlantic, where he writes about economics, technology, and the media. He is the author of Hit Makers and the host of the podcast Crazy/Genius.