Tennessee Housing Development Agency

THDA.ORG

AN ANALYSIS OF INVESTOR PURCHASES OF SINGLE-FAMILY HOMES IN DAVIDSON COUNTY, 2018 – 2022

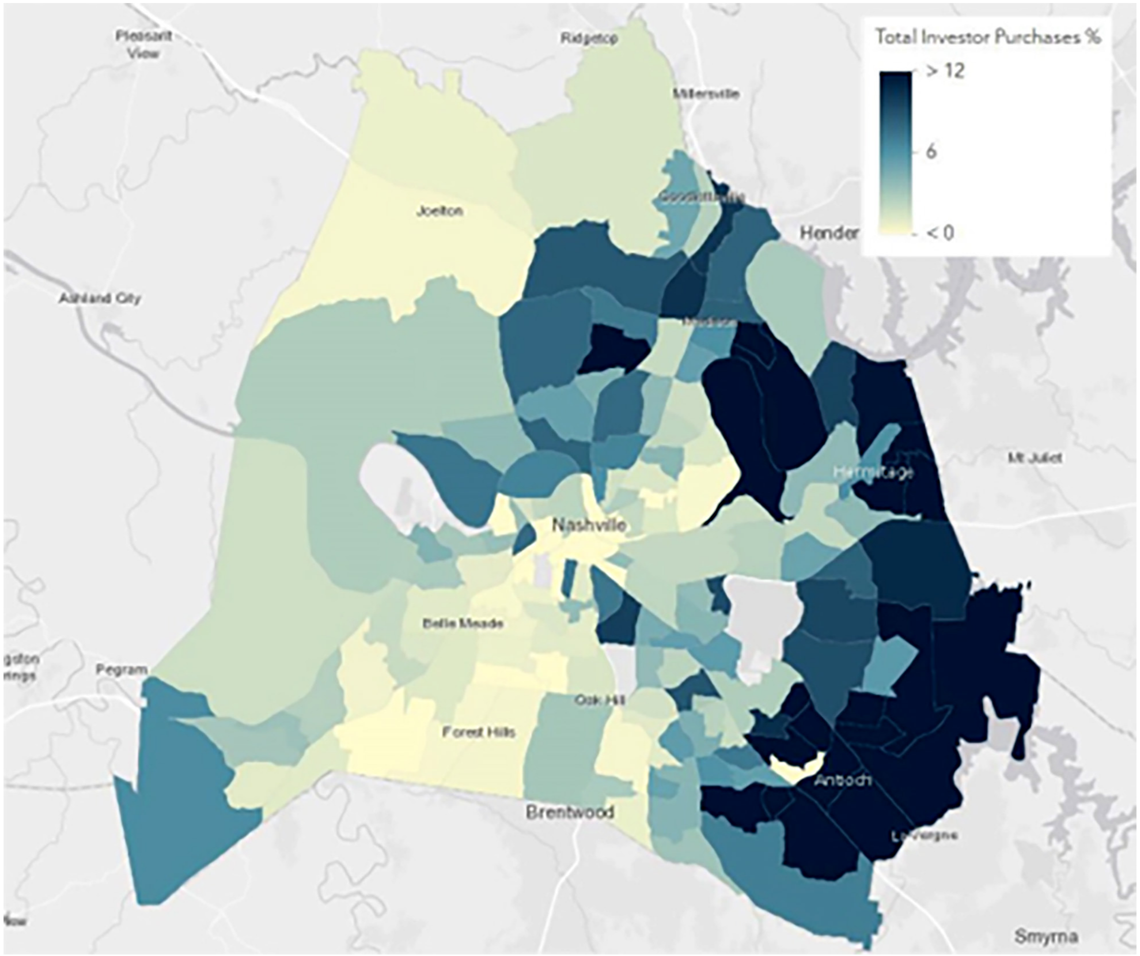
By Hulya Arik, PhD (Senior Economist, THDA)

May 2024

OVERVIEW:

Nationally, the phenomenon of investor purchases of single-family homes has received great attention. A local analysis of the extent of this issue in Davidson County reveals that investor purchases comprised seven percent of total purchases between 2018 and 2022, reaching a peak of 20 percent in the first quarter of 2020. Activity was highest in areas with lower sales prices like Antioch, TN, in which 21 percent of homes were bought by investors. The average appraised value of investor-bought homes is $270,000 compared to that of homes purchased by individuals, which is $430,000 across the county. This discrepancy is most pronounced in Nashville. Investor-purchased homes were also generally smaller and of lower quality than those bought by individuals. Overall, we find that while investor purchases have leveled off to their pre-pandemic levels across the county, the concentrated activity in areas like Antioch and in the "affordable" single-family housing market pose a particular threat to low- and moderate-income households interested in pursuing homeownership.

FIGURE 1: INVESTOR PURCHASES AS PERCENT OF TOTAL PURCHASES BY CENSUS TRACT IN DAVIDSON COUNTY, 2018-2022



BACKGROUND:

Owning a home is still considered to be one of the most effective ways of building wealth for many families in the U.S. (Urban Wire, Urban Institute).[1] According to the Federal Reserve Board's most recent (2022) Survey of Consumer Finances (SCF),[2] between 2019 and 2022, both homeowners and renters (or other non-homeowners) experienced gains in their median and mean net worth. Despite these gains, the average net worth of renter households trails that of homeowner households by $1.4 million, with housing wealth as the primary reason for this discrepancy.[3]

The effects of investors purchasing single-family homes may vary depending on the timing and the purpose of the purchases. For example, investors compete with individuals for a limited inventory of homes, reducing the housing stock available for homeownership. However, in a market with excessive vacant and foreclosed properties, investor activity might prevent the further distressing of the housing market, and prices might continue to decline.

For low- and moderate-income families interested in homeownership, however, investor activity poses a particular threat. Investor activity often bids up the prices of homes, crowding out prospective homeowners in neighborhoods. Investors, especially large corporations and institutional ones,[4] are also able to bypass some of the hurdles that individuals face. For example, they are able to forego financing and waive some critical steps of the traditional homebuying process, including appraisals and inspections. These actions might be too risky for individual buyers, particularly those competing for homes available to those making low- and moderate-incomes.[5] Institutional investors might also have a comparative advantage in purchasing homes that require repairs, as they are able to complete more efficiently than an owner-occupant through their expertise and financing advantages.

Conversely, for low- and moderate-income families, single-family homes owned by investors comprise an essential segment of the rental housing stock, providing a choice for households that prefer renting to owning a home or cannot currently purchase one. Single-family homes might offer more privacy, freedom to modify, less strict rules, and more space than other rental options such as apartments and condos. They may also provide amenities such as yards and garages, which are unavailable in apartment buildings. These choices may be important for renting households. However, investors might also raise the rents faster and evict tenants more often than other landlords.[6]

DATA AND METHODOLOGY

We utilize home sales data that was provided by the Davidson County Property Assessor's office, which contains select property-level information about every home sale that occurred between 2018 and 2022. We merge these data with data from the Census Bureau's American Community Survey (ACS) 5-year estimates to determine census tract-level characteristics. We used data from the 2019 5-year estimates because the census tracts on our property data were based on 2010's census tracts, which have since changed based on the 2020 decennial survey.

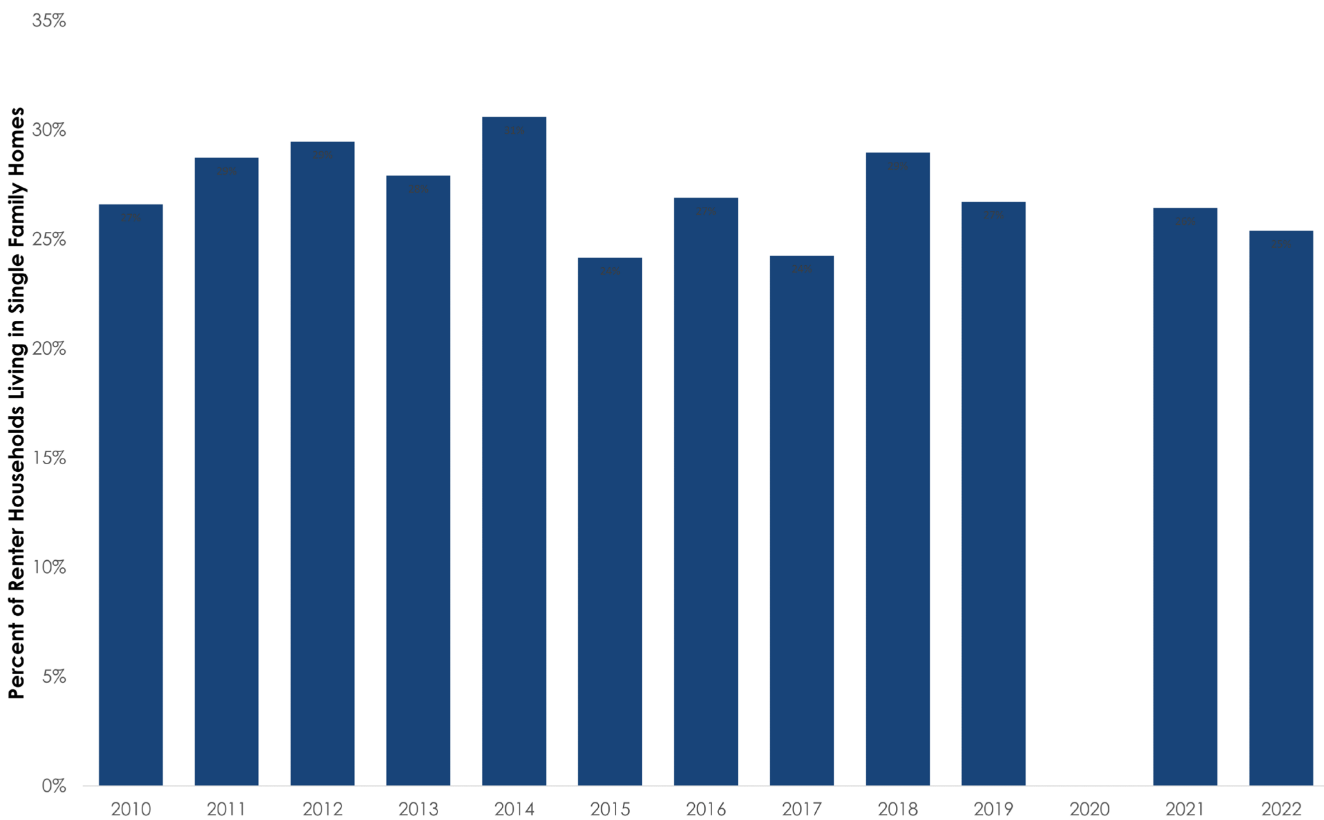
Due to data limitations around end uses, we do not make assumptions about the purpose of purchase. An investor might purchase a home with the intention to resell it to a new buyer for a profit (either with or without any renovation) or rent the home to a tenant.

We utilize three mechanisms for identifying investors, building on a methodology developed by Redfin, a national real estate brokerage.[7] Those buyers with LLC, Inc., Corp., L.P., or Homes in the owner's name; those buyers that purchased three or more homes in a single year;[8] and those that meet the prior two conditions. The combination of the first two conditions offers the most conservative identification of potential investors.[9,10]

SHARE OF RENTERS LIVING IN SINGLE-FAMILY HOMES REMAINS CONSISTENT OVER DECADE

According to the Census Bureau's American Community Survey (ACS) estimates, in 2022, nearly 40,000 renter households lived in single-family homes[11] in Davidson County, representing one-fourth of the county's total renter households. This rate has been relatively consistent for more than a decade, ranging from 24 percent to 31 percent.

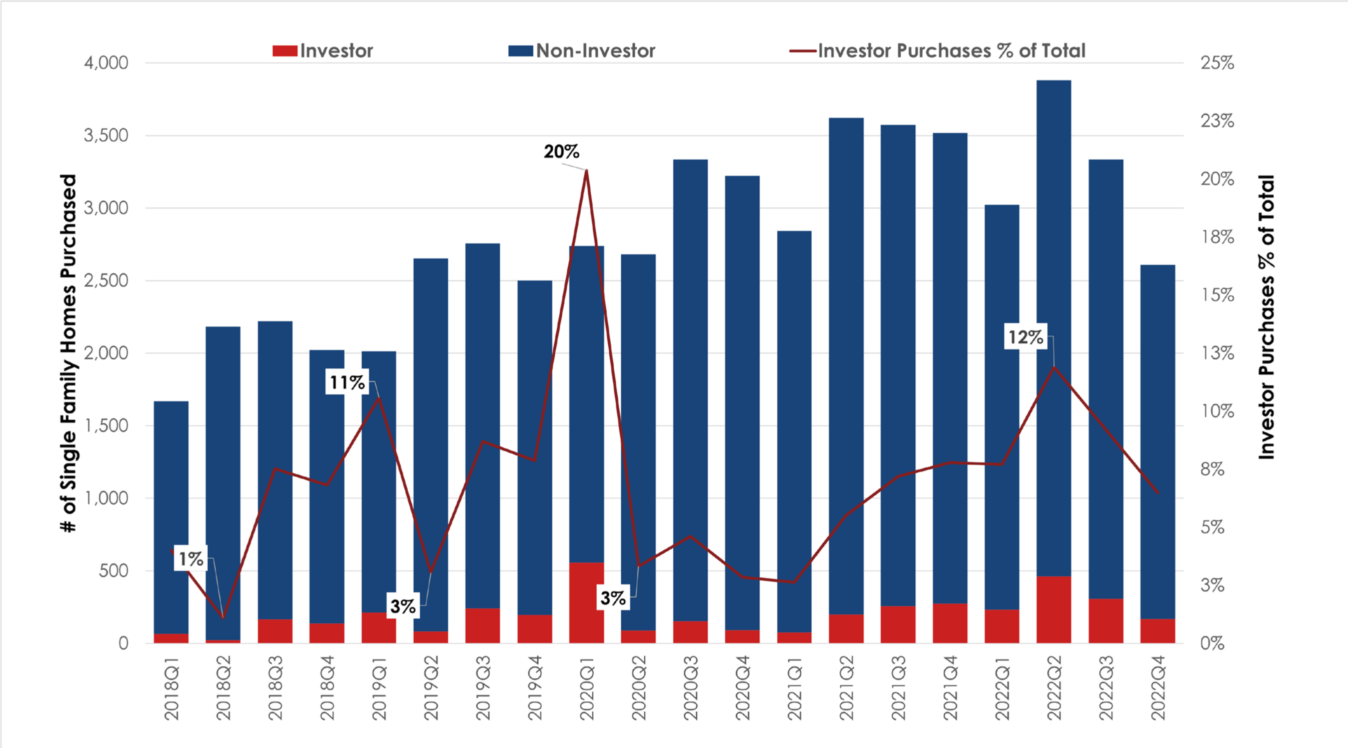
FIGURE 2: PERCENT OF RENTER HOUSEHOLDS LIVING IN SINGLE-FAMILY HOMES, DAVIDSON COUNTY, 2010-2022[12]



INVESTOR PURCHASES DECLINE FOLLOWING PEAK IN 2020

When defined most conservatively, by both their names and the number of homes purchased within a year, investors represent seven percent of total purchases with approximately 4,000 homes bought. This annual share ranged from five percent in 2018 to nine percent in 2022, with the highest quarter peak in occurring in the first quarter of 2020, which was the beginning of the COVID-19 pandemic. Immediately, investor activity declined to three percent and steadily increased to 12 percent of homes in the second quarter of 2022. In the remaining quarters of 2022, the share of investor purchases declined, once again.

FIGURE 3: SINGLE FAMILY HOMES PURCHASED, 2018-2022, DAVIDSON COUNTY



The most active investor in this 5-year period in Davidson County was American Home for Rent, LLC (AH4R), with over 800 single-family home purchases, nearly 500 of which were purchased in 2020. Progress Residential followed with 661 total home purchases, most of which were purchased in 2018 and 2019. Seven large investors, each with over 100 homes purchased in this 5-year period, accounted for more than half of 4,000 investor purchases.

INVESTORS PURCHASE SMALLER, "AVERAGE QUALITY" HOMES

Investors purchased relatively smaller homes, both in terms of the lot's acreage and the house's finished square footage. Considering all homes purchased in this 5-year period, an average home purchased in Davidson County was situated in a lot less than half of an acre, regardless of who purchased it. In comparison, investor-purchased homes were situated on a quarter of an acre, on average. Investor-purchased homes, on average, were at least 300 square feet smaller than homes purchased by non-investors. Furthermore, investor purchased homes that were newer. In 2022, for example, an average home purchased by an investor was built in 1988, while an average home purchased by a non-investor was built in 1979.

There were no differences in terms of number of rooms/bedrooms. Most investor and non-investor-purchased homes were of average quality (98 percent and 97 percent, respectively). While none of the homes purchased by investors were in excellent or very good condition, they were also not dilapidated. In contrast, these kinds of homes were purchased by non-investors. There were no other meaningful differences in the housing characteristics available, including front and side dimensions, story height, exterior walls, grade, frame, average ceiling height in feet for commercial property), and so on.

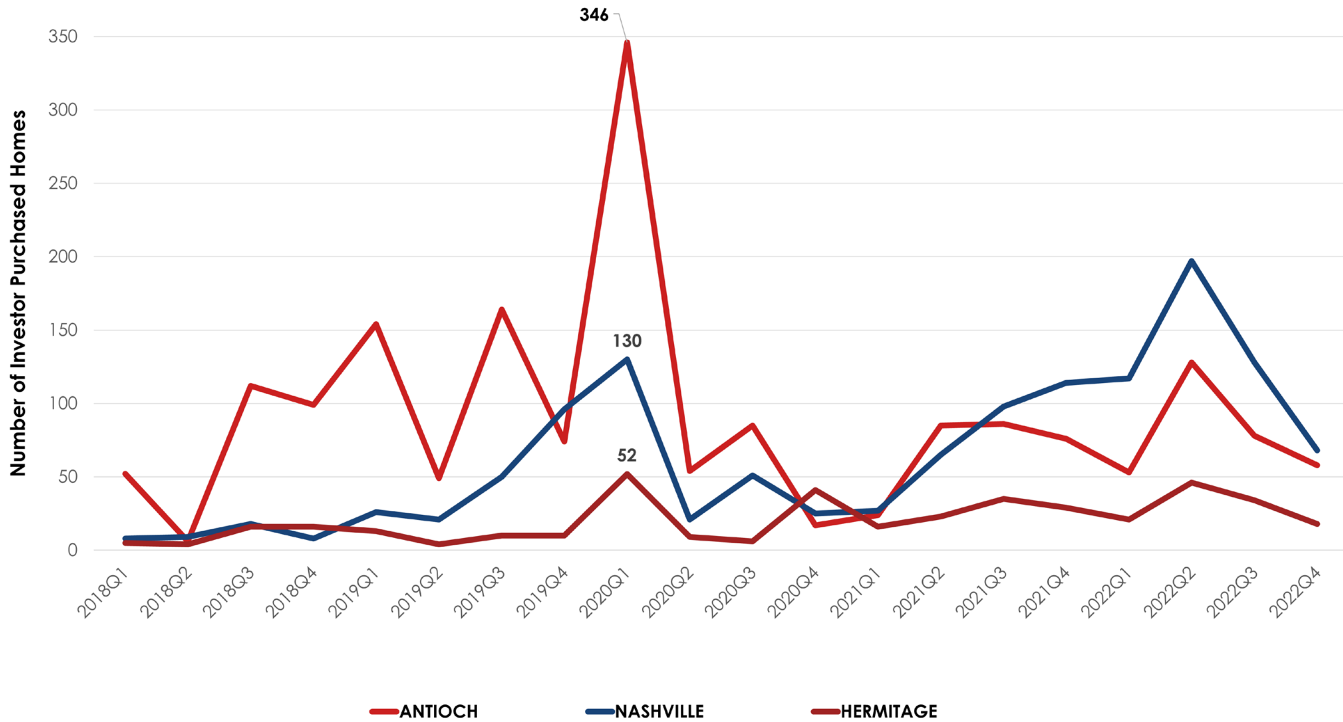
INVESTOR PURCHASES CONCENTRATED IN THREE CITIES IN DAVIDSON COUNTY

With 21 percent of the total homes purchased in the last five years, Antioch had the highest share of investor purchases, followed by Mount Juliet and Hermitage. Even though the number of investor-purchased homes in Mount Juliet was less than the number of homes investors purchased in Nashville and Hermitage, Mount Juliet's low sales volume placed it second in terms of share. The number of investor-purchased homes in three Davidson County cities with the most investor activity (Antioch, Nashville and Hermitage) represented 87 percent of total investor-purchased homes in the 5-year period.

TABLE 1: TOTAL AND INVESTOR PURCHASES BY CITY, 2018-2022, DAVIDSON COUNTY

CITY	Total Purchases	Investor Purchases	Investor Purchases Percent of Total
ANTIOCH	8,507	1,800	21%
ASHLAND CITY	37	0	0%
BELLEVUE	1	0	0%
BRENTWOOD	1,589	59	4%
FRANKLIN	10	0	0%
GOODLETTSVILLE	1,516	67	4%
HERMITAGE	3,900	408	10%
JOELTON	511	2	0%
MADISON	2,729	235	9%
MOUNT JULIET	135	15	11%
NASHVILLE	34,363	1,277	4%
NOLENSVILLE	830	12	1%
OLD HICKORY	1,854	111	6%
PEGRAM	46	0	0%
WHITES CREEK	375	11	3%
DAVIDSON COUNTY	56,403	3,997	7%

FIGURE 4: INVESTOR PURCHASED HOMES, THREE CITIES WITH THE HIGHEST INVESTOR ACTIVITY, 2018-2022

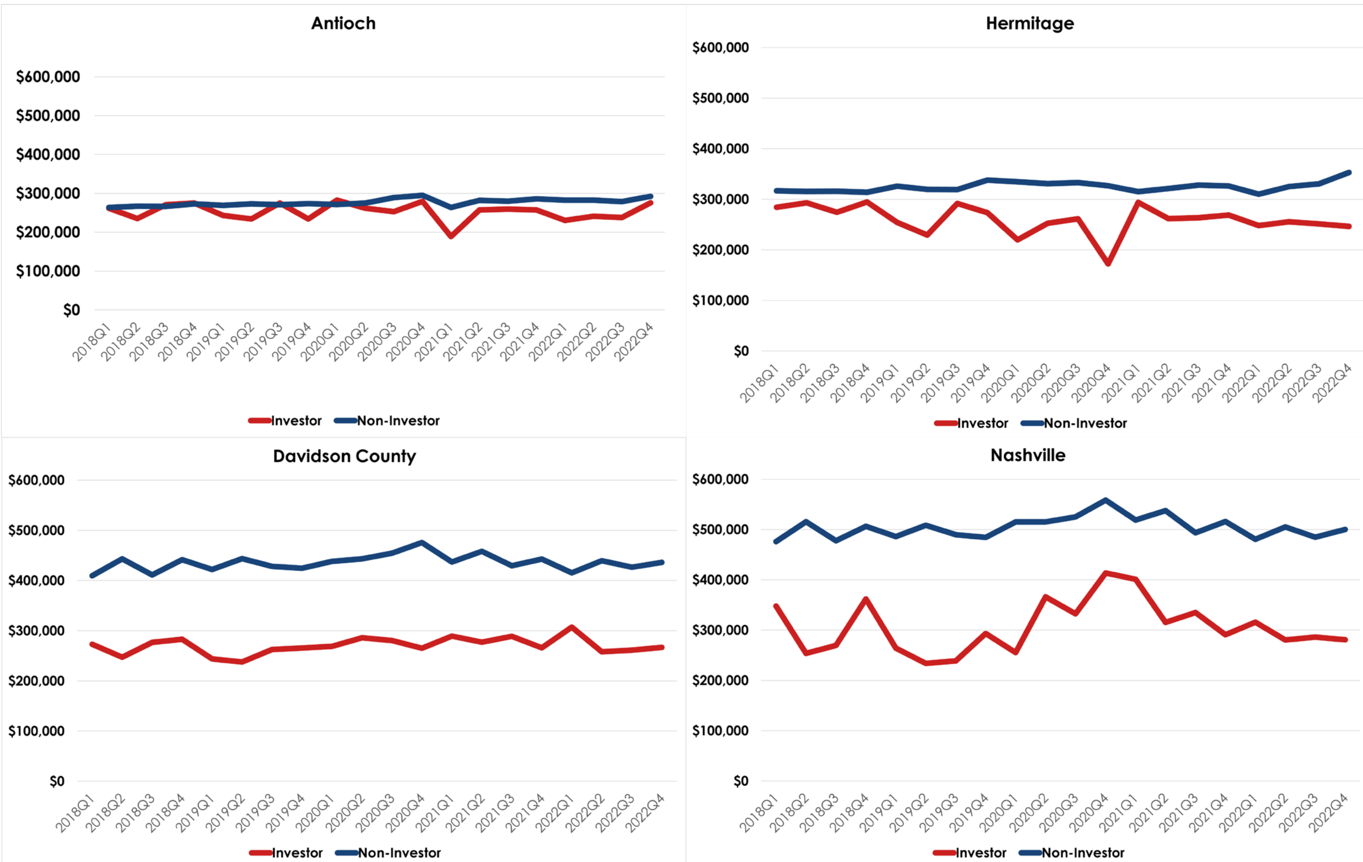


APPRAISED VALUE OF INVESTOR PURCHASED HOMES LOWER THAN NON-INVESTOR PURCHASED HOMES

The average appraised value of homes purchased by investors was $270,000 compared to $430,000 for homes bought by non-investors. While, this differential was largely similar across most cities, this difference was most striking in Nashville, where the appraised values of homes purchased by non-investors was $507,000 compared to $296,000 for homes bought by investors. In contrast, in Antioch this difference was much less pronounced, where the average appraised value for investor-purchased homes was of $260,000 compared to $277,000 for homes purchased by non-investors.

In Davidson County, investors are constricting the available inventory for low-income households, which in Davidson County, would be a four-person household with an annual income of $85,500. The maximum price that a low-income household can pay to purchase a home without being cost-burdened,[13] assuming with a $15,000 downpayment,[14] is $278,000. This is approximately the average price paid by investors that purchased a home in Davidson County in this five-year period.

FIGURE 5: AVERAGE APPRAISED VALUE, INVESTOR AND NON-INVESTOR PURCHASED HOMES IN THREE CITIES



CONCLUSION AND POLICY RECOMMENDATIONS

Investors play an important role in rental markets by providing a choice for renters of all types and by improving the quality of housing stock through renovations. While it would be both unwise and impractical to prevent investor activity in the single-family housing market, policymakers can level the playing field by establishing ground rules and offering help to prospective homebuyers in a strong housing market with fierce competition.

Pilot programs designed to close the gap in financing and expertise required for repairing homes might be critical to compete with the financial advantage that investors have over individual homebuyers when buying homes that require repairs. If the property requires major renovations, receiving a home purchase mortgage loan can be difficult as the loan amount is based on the property's current value and does not account for repairs that could enhance property values. While two programs exist to mitigate this issue - the Federal Housing Administration's (FHA's) 203K program and Fannie Mae or Freddie Mac's renovation finance programs – for both of which, the loan amount is based on the property's after-repair market value, first-time homebuyers may not have the necessary skills and funds to access these more expensive and complex programs.

The appraisal gap refers to the discrepancy between the cost of acquisition and renovation and the home's value in some depressed markets. Addressing this gap via subsidies which cover the difference between appraisal and the cost of acquisition and renovation would also allow for individual buyers to be more competitive with investors. Other approaches include designing programs to rehab and resale distressed properties to homeowners. For example, THDA implemented a pilot program in June 2022 to help first-time homebuyers purchase move-in ready homes by renovating foreclosed properties from THDA's portfolio. Programs like this might give a competitive advantage to first-time homebuyers. Furthermore, first-look programs give owner-occupants and nonprofits an exclusive period to shop and bid on real estate-owned (REO) properties before auctions are opened up for investors to register.[15]

Understanding where and how investors operate can guide policymakers in designing measures to reduce the negative impact of investors' involvement in the housing market. This may include offering incentives for homeownership during critical periods in housing markets or regulations for investor purchases. It is essential to offer policies to maintain a balanced housing market that serves both renters and potential homeowners.

ENDNOTES

1 Jung Hyun Choi and Amalie Zinn, "The Wealth Gap between Homeowners and Renters Has Reached a Historic High," The Urban Institute, April 2024, https://www.urban.org/urban-wire/wealth-gap-between-homeowners-and-renters-has-reached-historic-high

2 Aladangady, Aditya, Jesse Bricker, Andrew C. Chang, Sarena Goodman, Jacob Krimmel, Kevin B. Moore, Sarah Reber, Alice Henriques Volz, and Richard A. Windle, "Changes in U.S. Family Finances from 2019 to 2022, Evidence from the Survey of Consumer Finances," Board of Governors of the Federal Reserve System, October 2023, https://doi.org/10.17016/8799.

3 Between 2019 and 2022, homeowners' average net worth exceeded $1.5 million after a 20 percent increase, as housing prices outpaced inflation. Over the same period, a 40 percent increase resulted in an average net worth of renters of $154,900. The average net housing value increased by 27 percent between 2019 and 2022 to $335,300.

4 Institutional investors are nonindividual entities such as limited liability companies (LLCs), limited liability partnerships (LLPs), and real estate investment trusts (REITs) that have portfolios of 1,000 or more housing units.

5 "Institutional Investors Outbid Individual Homebuyers," Evidence Matters, Office of Policy Development and Research, 2023, https://www.huduser.gov/portal/periodicals/em/winter23/highlight1.html

6 Researchers at Federal Reserve Bank of Atlanta found that, in Atlanta area, investors were eight times more likely to evict tenants.

7 "Investor Purchases," Redfin Data Center, https://www.redfin.com/news/data-center/investor-data/

8 If someone purchased three or more homes in, for example, 2020, but less than three homes in other years, that purchaser was considered as "investor" in 2020, but not in other years. Therefore, the number of investor-purchased homes are counting the purchases only when the buyer is identified as investor, not the purchases in other years.

9 We excluded some purchasers from the list of investors even though they would be considered as investors based on name and the number of purchases. For example, builders and construction companies (we found two of them in our database; D.R. Horton and Dalamar Homes, LLC), Affordable Housing Resources, Inc (it is a non-profit) and several purchasers with "church" in their names are excluded.

10 In this paper, we chose the conservative approach to identify and count the investor purchases. Therefore, the investors are the ones who purchased three or more homes in a single year and whose name included words such as LLC, Inc., Corp., LP or Home.

11 The number of single-family homes consists of one-unit attached and one-unit detached homes from the Census Bureau's American Community Survey (ACS). Manufactured or mobile homes are not included in the calculations.

12 The U.S. Census Bureau decided not to release its standard 1-year estimates from the 2020 American Community Survey (ACS) because of the impacts of the COVID-19 pandemic on data collection. Therefore, 2020 data is missing from the figure.

13 A household is cost burdened if housing payment exceeds 30 percent of their income. However, in our calculation we used 25 percent to take in to account other housing related expenses such as insurance and property taxes.

14 This is the maximum downpayment assistance a THDA borrower who uses the Great Choice mortgage loan product with payment option can receive.

15 These programs have been in effect since 2009. Still, several changes were made in 2022 as part of the Biden administration's Housing Supply Action Plan. Fannie Mae and Freddie Mac increased the period of their first-look initiative from 20 days to 30 days of listing, and the U.S. Department of Housing and Urban Development (HUD) established a 30-day first-look period for its sales of foreclosed, formerly FHA-insured properties. Expanding the share of REO properties that go through First Look and awareness of the program can further increase the share of sales of homes in depressed markets to owner-occupants.