CoreLogic

2011-2020

Investor Homebuying Report

The Difference of a Decade:
Rising Purchases amid swings in market share

Contributors
CoreLogic Office of the Chief Economist

CLFIND20210475

Table of Contents

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Introduction

In 2011, the United States had just reemerged from the 2006 housing market crash. Foreclosed homes were appearing on the market in spades, and many investors looking to snap up properties at a discount were buying.

What began as a spree of purchases to capitalize on low-cost, high-growth properties in 2011 peaked in 2018. But since then, the pace of investment has slowed. By 2020, this decrease in investor purchase activity was disproportionately exhibited in bigger buyers, with small mom and pop investors making up a more significant share of investors than at any point in the past.

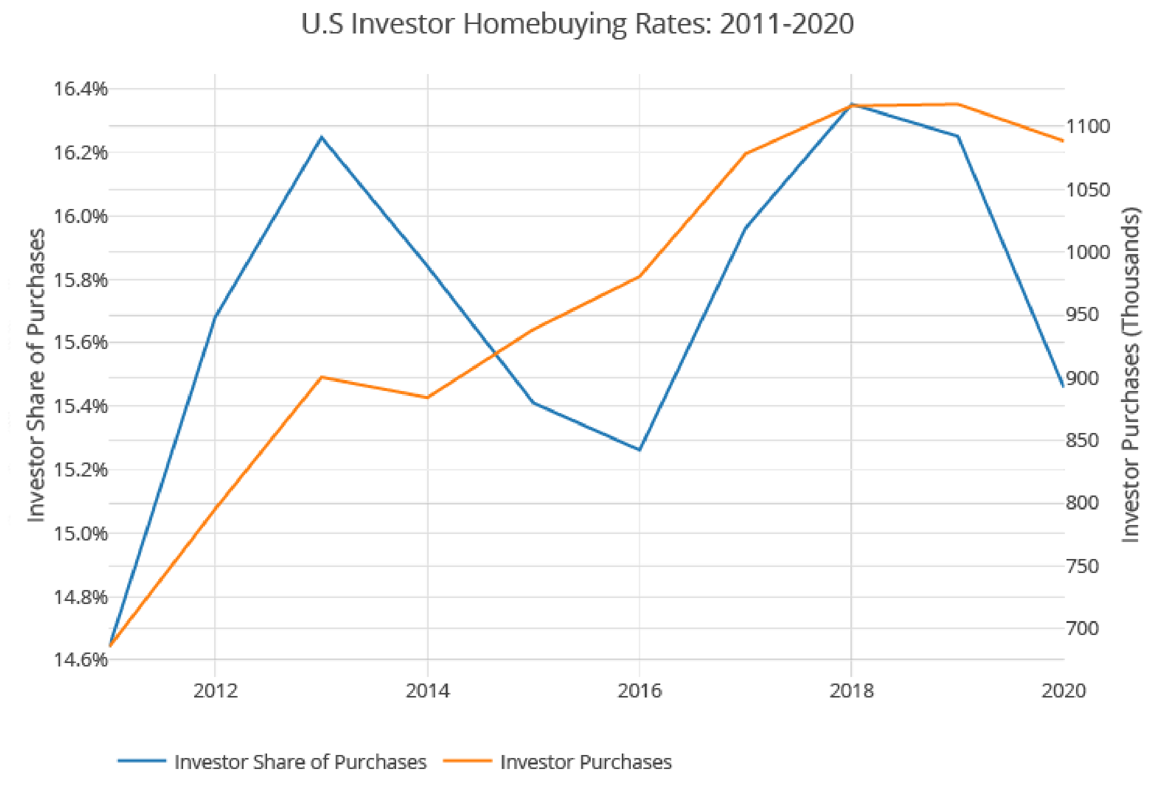
Much has changed in the last decade. In this CoreLogic report, we use a new investment indicator to look at investor buying activity from several different perspectives. We also investigate activity nationally by both price tier and investor size and look at which regions have had the most and least activity.

Investor Share Continued to Fall in 2020

In 2020, the investment rate (the unit volume share of all home purchases made by investors) in the U.S. housing market was 15.5%. This was a slowdown from 16.3% in 2019. Investor activity peaked in 2018 at just below 16.4%; however, the rate in 2016 was 15.3%. Thus, the current 15.5% rate is not unusually low.

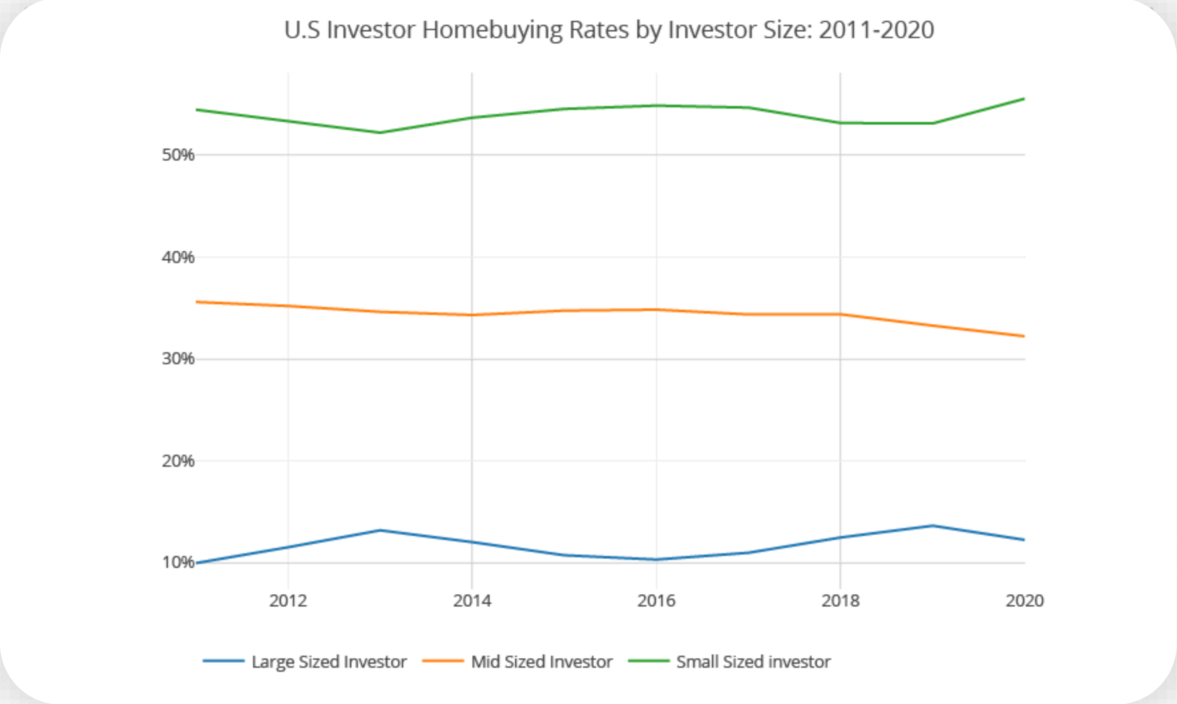
In particular, the 2020 investment rate is comparable to the 2012 rate of 15.7%, when low prices and the foreclosure crisis, following the 2006 housing market crash, made the market attractive to investors. Overall, investors have maintained a strong presence in the market over the decade, mostly oscillating within a narrow corridor of 15% to 17% of total purchases for the decade.

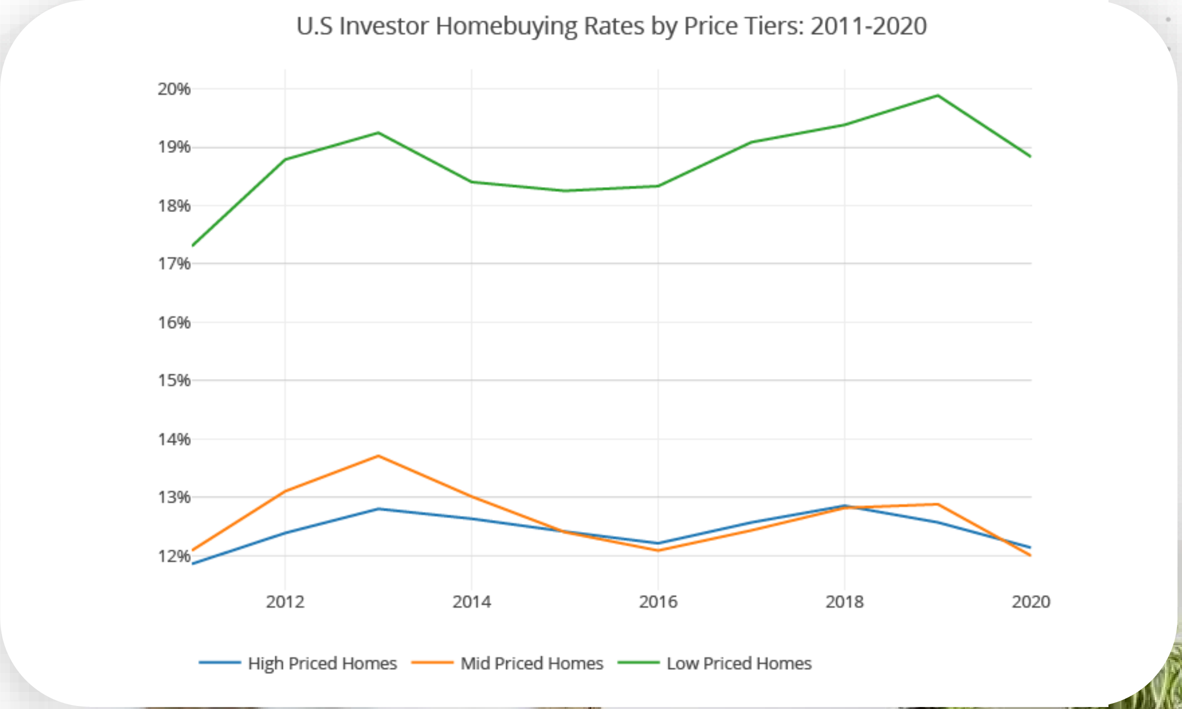
While the investor share of purchases has swung higher and lower over the decade, the number of investor purchases has gradually risen. Since 2017, investors purchased about 1.1 million homes each year, but the share this made up of total home purchases varied.



Smaller investors are responsible for the bulk of investor homebuying activity, and the rate appears to be increasing. Between 2011 and 2020, these so-called mom and pop investors who have kept 3-to-10 homes increased their share of homebuying more than large- and medium-sized investors, growing from 54% to 56%. This is due to a recent pickup, between 2018 and 2020 this share grew from 53% to 56%.

Large investors, those who retained more than 100 homes, remain steady at around 12% since 2018. It seems small investors mostly took their market share from medium-sized investors — those who kept between 11 and 100 homes — whose share fell from 34% to 32% of the market between 2018 and 2020.



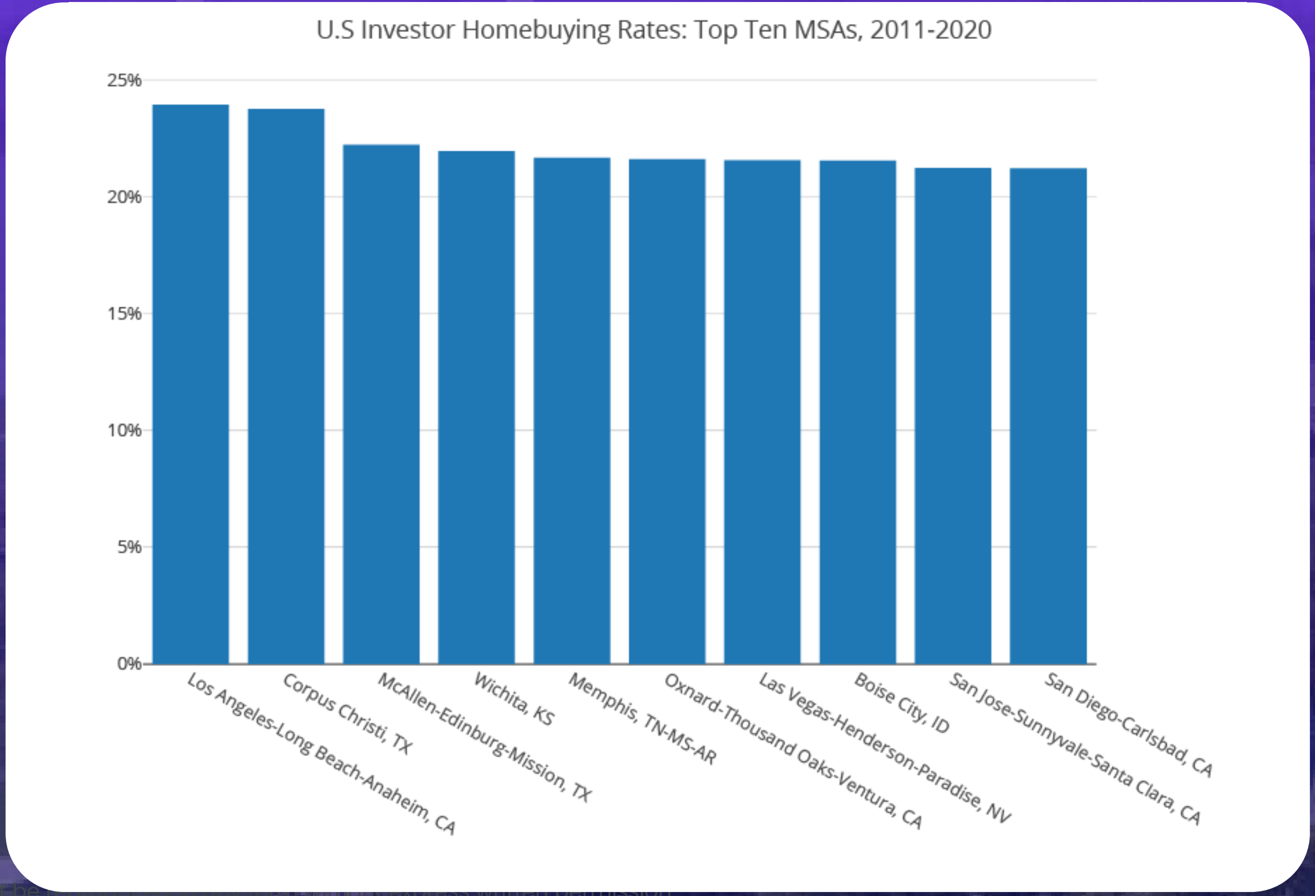


Investor purchase rates were much higher among relatively low-priced homes. In 2020, 18.8% of purchases in the bottom one-third of prices for their respective metropolitan area were made by investors. That rate was well above those for the middle- and top-third of homes, with rates around 12%. Investor activity fell by 1-to-2 percentage points in all three tiers since 2018, consistent with the national trend.

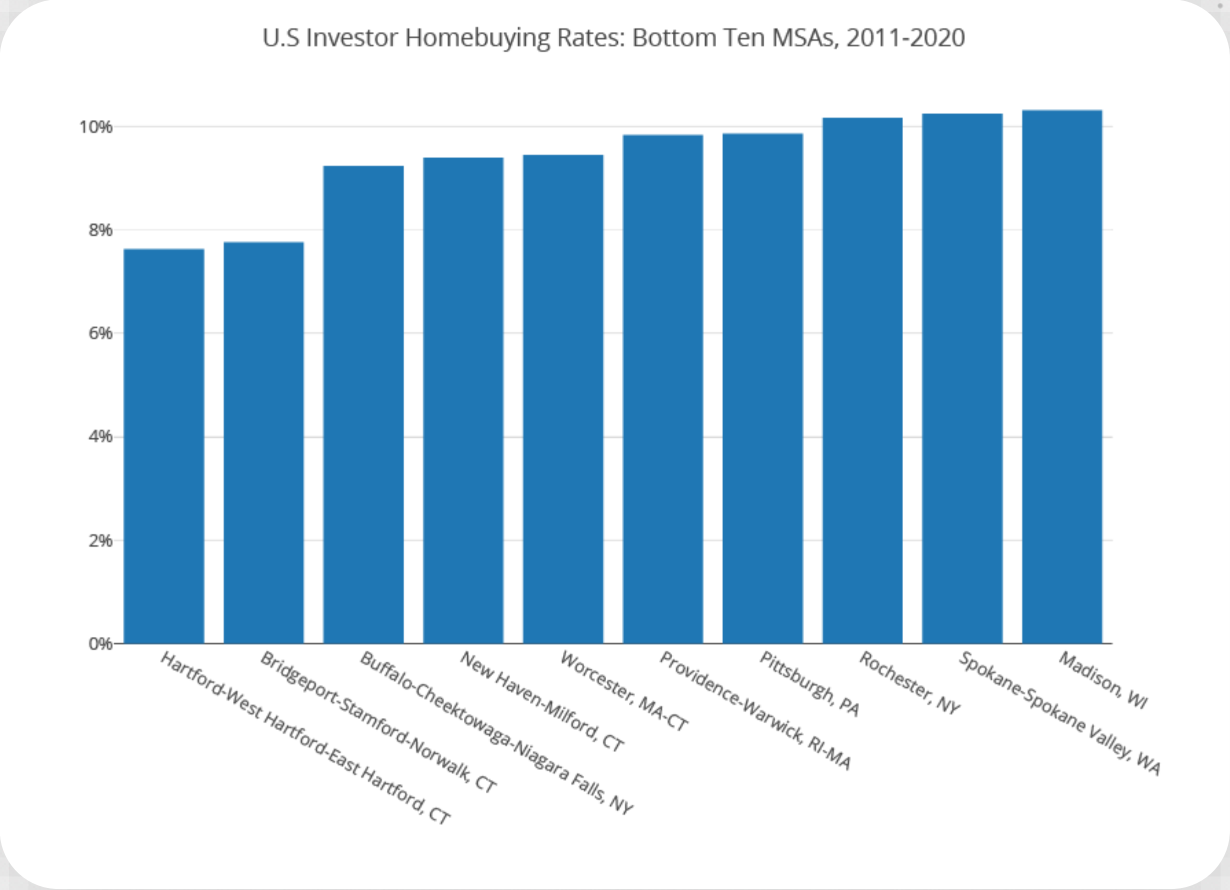
Investor Activity Highest in California and Texas, Lowest in the Northeast

Investor homebuying rates varied significantly across the country over the past decade. Rates were highest in California and Texas. These states had six of the top 10 metropolitan areas with the highest investor rates for the decade with Corpus Christi, Texas, and Los Angeles leading the way.

Outside of Texas and California, Las Vegas was another Western city with high investor rates. Wichita, Kansas; Memphis, Tennessee and Boise, Idaho were the other three metros in the top 10.



Investor activity during the decade was lowest in the Northeast, with eight of the bottom 10 metro areas representing the region. Hartford, Connecticut had the lowest investor activity with a rate of just under 8%. Madison, Wisconsin, was the sole Midwestern market on the list with a rate of about 10%. Spokane, Washington, was the only West Coast market with a rate of 10%. Investors are most likely deterred by the stagnant population growth in places like Pittsburgh and Hartford, Connecticut as well as stringent regulations in places like Providence, Rhode Island.[1]



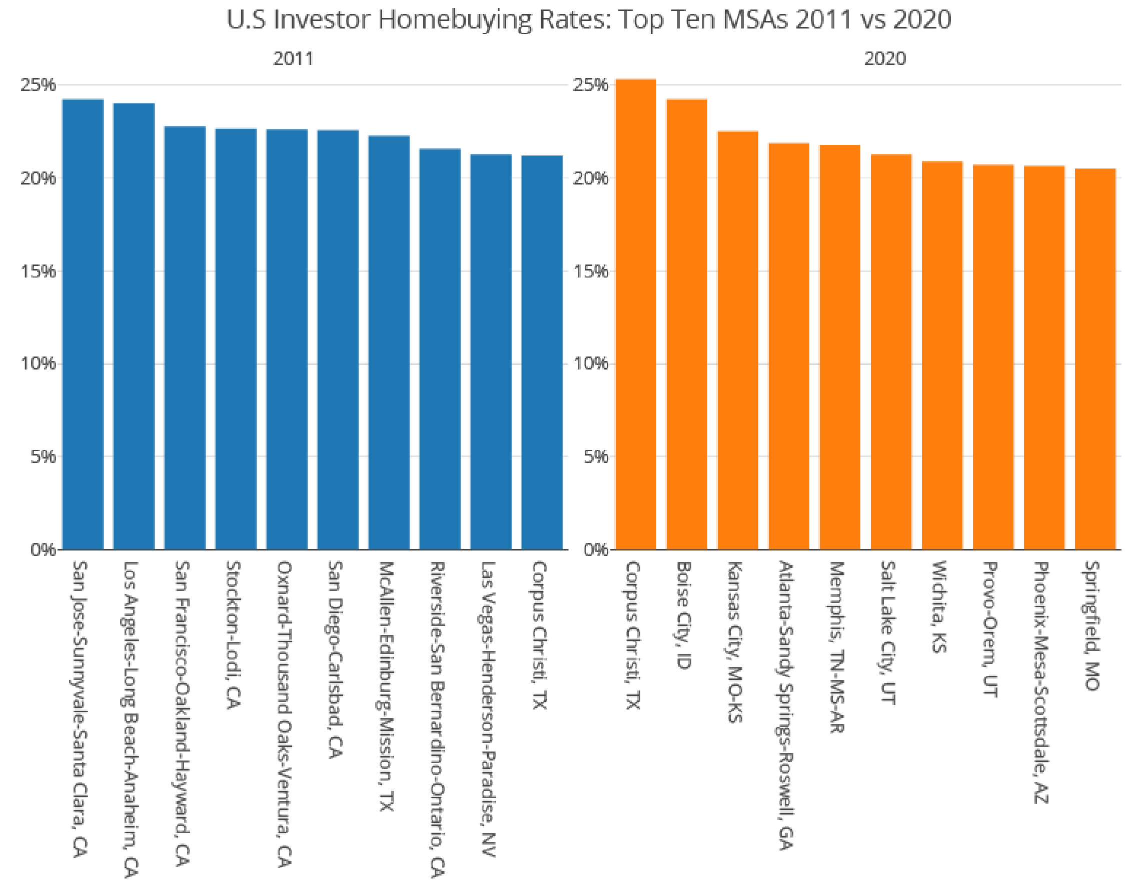
[1] According to the 2018 Wharton Residential Land Use and Regulation Index, Providence has the third strictest land use regulations of metro areas in the US. See Gyourko, J., Hartley, J., & Krimmel, J., The Local Residential Land Use Regulatory Environment Across U.S. Housing Markets: Evidence from a New Wharton Index, NBER Working Paper #26573

The Start of the Decade Looked Very Different from the End

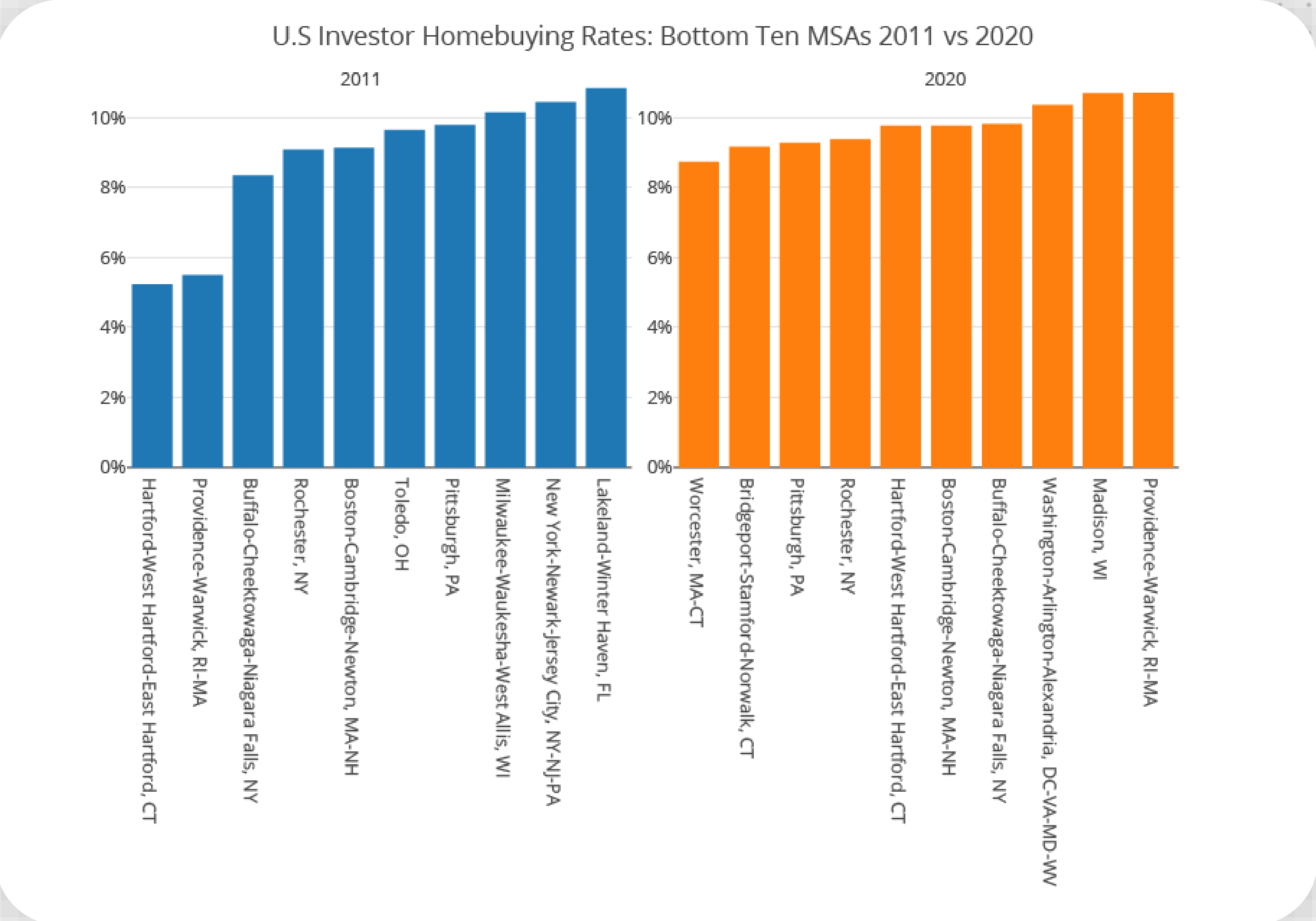
California dominated investor activity at the start of the decade. In 2011, Los Angeles, San Jose, San Diego, San Francisco, Sacramento, Oxnard, Stockton and Riverside were all in the top 10 metro areas with the highest investor activity. This reflects the nature of the market in the wake of the Great Recession. California was hit hard and consequently had many foreclosures and sales of real-estate owned by financial institutions.

Conversely, not a single California metro area made the top 10 in 2020, after having been supplanted by cities in the Mountain West, the western Midwest and the South. Investors have most likely shifted their attention elsewhere because of increasing home prices in California metro areas. In general, investment has grown in metro areas like Boise, Phoenix and Salt Lake City, which tend to have lower prices and growing populations fueled by California out-migration.

In this way, investors are unlike today’s homebuyers. For instance, desiring affordability and warm weather, homebuyers flocked to Florida in 2020, with the state accounting for nearly half of the top 15 metros with the highest in-migration.

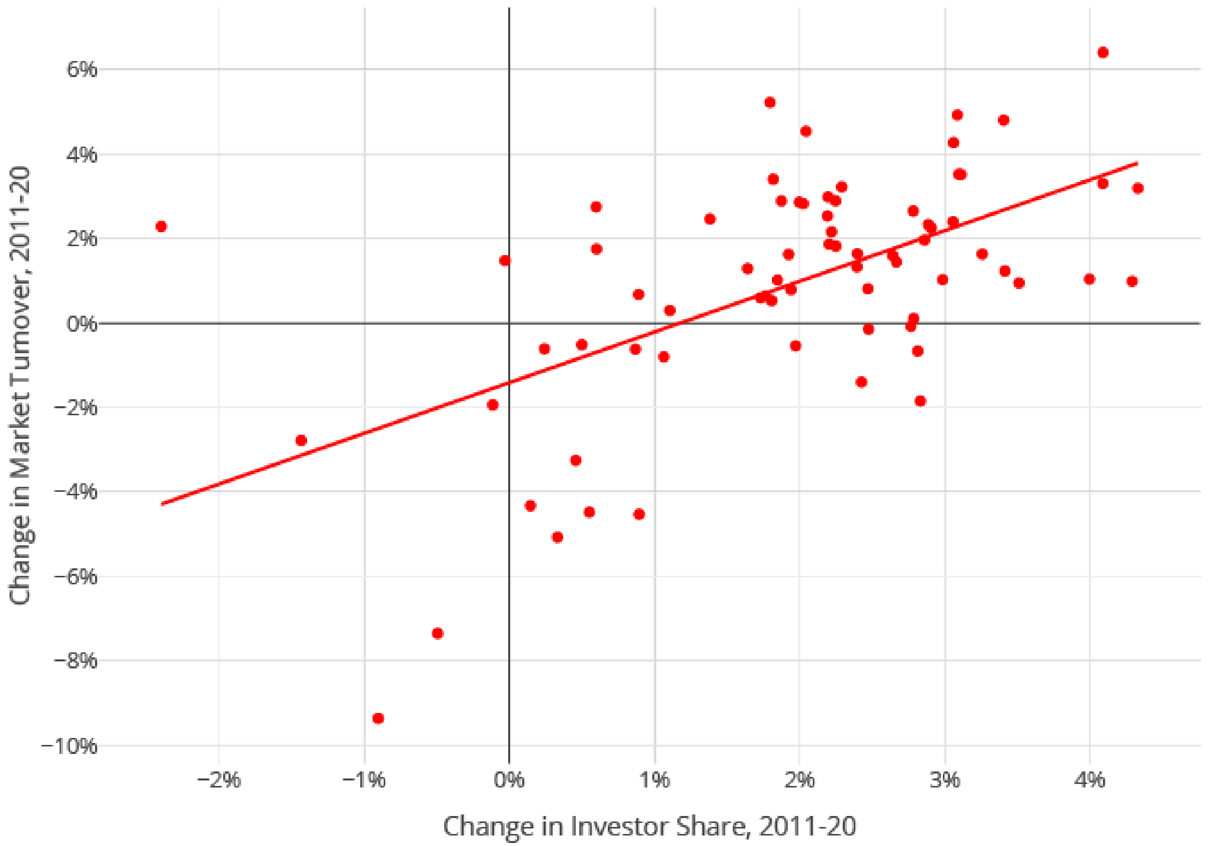


The change in the bottom 10 metros was less striking than the top 10. Investor rates were lowest in the Northeast in 2011 and remained so in 2020. Buffalo, Pittsburgh, Boston, Rochester, New York; Hartford, Connecticut and Providence, Rhode Island made up six of the bottom 10 metro areas in both years.



Increase in Investor Activity Associated with Greater Housing Stock Turnover

Additionally, investors have gained market share over the last decade as housing market turnover has increased. At the metropolitan level, there appears to be a good correlation between the two, as shown by the fitted line in the figure below. It seems that increasing investor activity goes hand-in-hand with market turnover, or the percentage of homes that are sold.[2]



2 Turnover is calculated as the share of homes sold in a MSA in a year. For instance, if an MSA has a stock of 100,000 units and 10,000 of them sell in a given year, the velocity for that year is 0.1.

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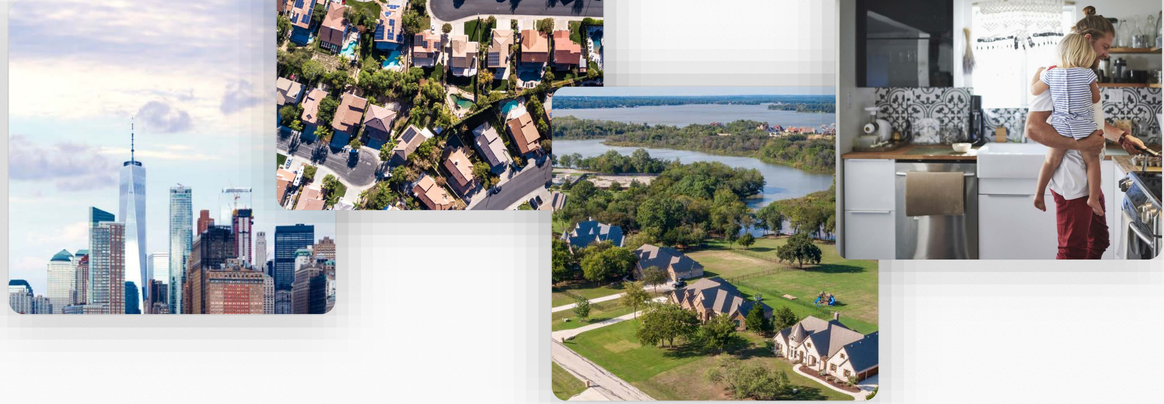
This could indicate that investors are “crowding out” homebuyers by purchasing homes that would have otherwise gone to prospective homeowners, but we can't say this with any certainty. It is just as possible that investors are seeing a hot market and choosing to jump in because they anticipate further gains.

In 2020, a new factor influencing investment behavior arose: eviction moratoriums. In places with moratoriums and strong tenant rights, renters who couldn’t pay made it challenging to have a reliably lucrative investment. These restrictions likely deterred investor activity since they brought an additional layer of risk to the market.

The Path Forward



While we found that the national investor share has fallen from 2018, we can't definitively link this to any single market condition. The share decline can't be attributed solely to the coronavirus pandemic, as rates were also down in 2019.

In 2020 cities with the most investor activity — like Boise, Phoenix and Kansas City, Missouri — were high-growth markets with relatively low prices that have moved investors' attention away from California.

Although investors seem to have lost some of their market share to owner-occupant buyers, it's hard to say how long this trend will continue, or what long-term implications it will have on the larger market. At this juncture, the first year into the new decade and the first-year since the start of the pandemic, what we may see as the housing market cools down – with more for-sale inventory and slower home-price growth in 2022 – is an increase in the investor share.[3]

[3] According to the June 2021 CoreLogic HPI™ Forecast, prices are expected to increase 3.2% nationally from June 2021 to June 2022, a huge slow down from 17.2% from June 2020 to June 2021.

This report defines an investor as an entity (individual or corporate) who retained three or more properties simultaneously within the past 10 years. This report uses CoreLogic Public Records data and enhances the definition of an investor purchase that was introduced in a 2019 CoreLogic report. The previous report identified an investor purchase by looking for a corporate or non-individual identifier on the deed. Examples include LLCs, CORPs, and INCs, to name a few. This report includes those purchases but in addition, can identify more investor purchases by seeing how many properties a person with the same name and address retains at any one time.