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MARKETS

If You Sell a House These Days, the Buyer Might Be a Pension Fund

Yield-chasing investors are snapping up single-family homes, competing with ordinary Americans and driving up prices

By Ryan Dezember | Photographs by Jeff Lautenberger for The Wall Street Journal

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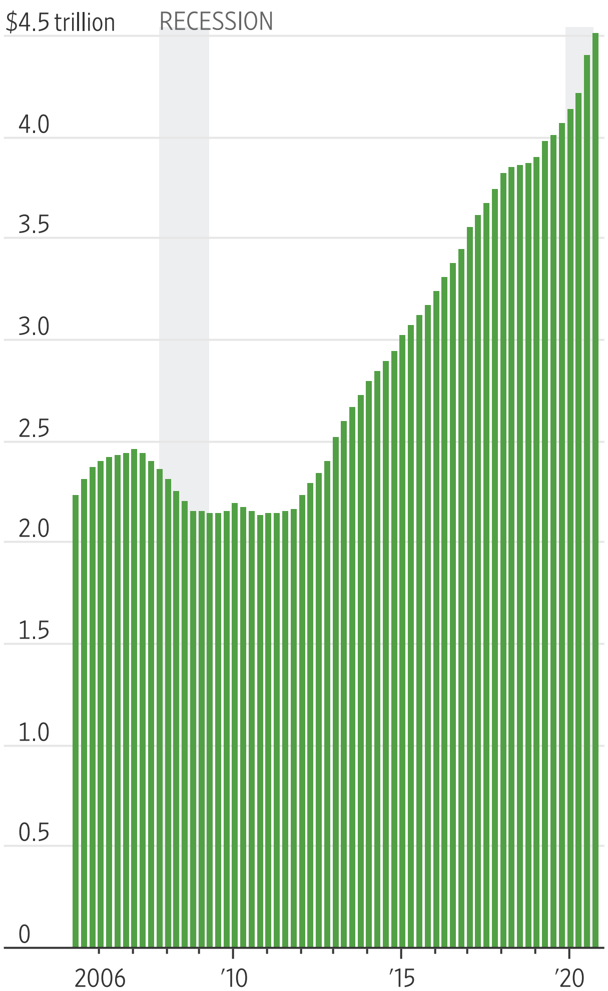
A bidding war broke out this winter at a new subdivision north of Houston. But the prize this time was the entire subdivision, not just a single suburban house, illustrating the rise of big investors as a potent new force in the U.S. housing market.

D.R. Horton Inc. DHI 2.22% ▲ built 124 houses in Conroe, Texas, rented them out and then put the whole community, Amber Pines at Fosters Ridge, on the block. A Who's Who of investors and home-rental firms flocked to the December sale. The winning $32 million bid came from an online property-investing platform, Fundrise LLC, which manages more than $1 billion on behalf of about 150,000 individuals.

The country's most prolific home builder booked roughly twice what it typically makes selling houses to the middle class—an encouraging debut in the business of selling entire neighborhoods to investors.

Total value of U.S. rental homes



Source: John Burns Real Estate Consulting

"We certainly wouldn't expect every single-family community we sell to sell at a 50% gross margin," the builder's finance chief, Bill Wheat, said at a recent investor conference.

From individuals with smartphones and a few thousand dollars to pensions and private-equity firms with billions, yield-chasing investors are snapping up single-family houses to rent out or flip. They are competing for houses with ordinary Americans, who are armed with the cheapest mortgage financing ever, and driving up home prices.

"You now have permanent capital competing with a young couple trying to buy a house," said John Burns, whose eponymous real estate consulting firm estimates that in many of the nation's top markets, roughly one in every five houses sold is bought by someone who never moves in. "That's going to make U.S. housing permanently more expensive," he said.

The consulting firm found Houston to be a favorite haunt of investors who have lately accounted for 24% of home purchases there. Investors' slice of the housing market grows—

as it does in other boomtowns, such as Miami, Phoenix and Las Vegas—among properties priced below $300,000 and in decent school districts.

“Limited housing supply, low rates, a global reach for yield, and what we’re calling the institutionalization of real-estate investors has set the stage for another speculative investor-driven home price bubble,” the firm concluded.

A bidding war broke out for the Amber Pines 124-unit rental-housing community built by D.R. Horton.

The bubble has room to grow before it bursts, according to John Burns Real Estate Consulting. But it is inflating fast. The firm expects home prices to climb 12% this year—on top of last year’s 11% rise—and increase at least 6% in 2022, a period of appreciation reminiscent of 2004 and 2005.

That boom was different, fueled by loose lending that enabled individuals to speculate on home prices by racking up mortgages they could repay only if home prices kept climbing. The money party ended a few years later when home prices stopped rising. The ensuing crash wiped out $11 trillion in U.S. household wealth and brought the global financial system to the brink of collapse.

U.S. home prices, year-over-year growth

Note: Burns Home Value Index
Source: John Burns Real Estate Consulting

Financiers stepped in starting in 2011 and gobbled up foreclosed homes at steep discounts. They dispatched buyers to courthouse auctions with duffel bags of cash. Smartphones and tablet computers—new then—enabled them to orchestrate the land grab and manage tens of thousands of far-flung properties thereafter.

They dominated the market for a few years, accounting for about a third of sales in some markets and setting a floor for falling prices. There wasn't much competition. Stung by losses, banks made it harder for regular home buyers to get a mortgage. Millions of Americans were underwater, owing more on their mortgages than their homes were worth, and unable to move.

Home-rental firms, including Invitation Homes Inc. INVH **1.33%** ▲ and American Homes 4 Rent, AMH **1.18%** ▲ thrived. Renting suburban homes proved so profitable that landlords hit the open market and added properties at full price once foreclosures dried up. Many now build houses explicitly to rent.

The coronavirus pandemic sparked a race for home-office space and yards. Occupancy rates reached records and rents are rising with home prices. The ecosystem of companies that service, finance and mimic the mega landlords is booming.

SHARE YOUR THOUGHTS

Have you encountered investors in the housing market? Join the conversation below.

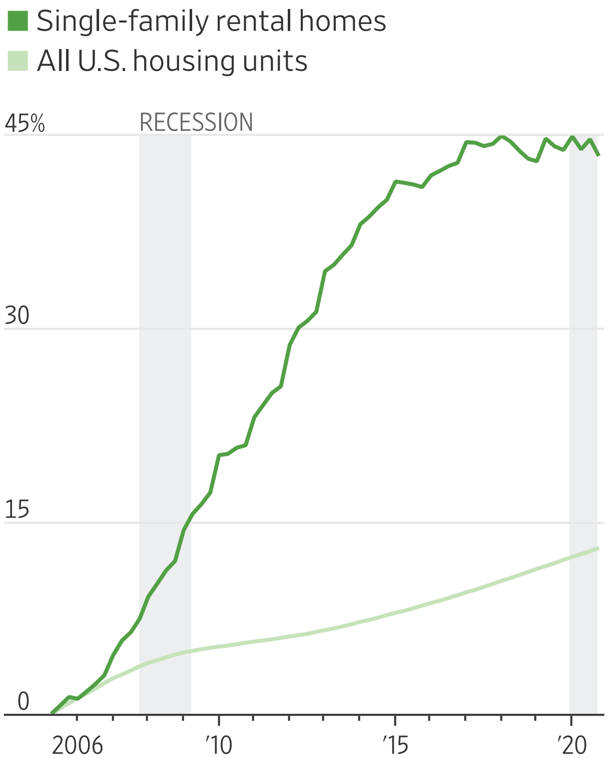
Burns counted more than 200 companies and investment firms in the house hunt: computer-assisted flipper Opendoor Technologies Inc., OPEN **4.52%** ▲ money managers including J.P. Morgan Asset Management and BlackRock Inc., BLK **-1.12%** ▼ platforms such as Fundrise and Roofstock that buy and arrange for the management of rentals on behalf of individuals and builder LGI Homes Inc., LGIH **2.92%** ▲ which now reports wholesale home sales to bulk buyers in its quarterly results.

Spring brought a fresh stampede of buyers.

PCCP LLC, which typically invests in apartment buildings and office towers, said it bought rental-home communities in the Southeast, the start of a $1 billion pact with Calstrs, California's $286.9 billion teachers' retirement system.

Home builder Lennar Corp. LEN.B **2.40%** ▲ announced a rental venture with investment firms including Centerbridge Partners LP and Allianz ALIZY **5.13%** ▲ SE to which it and potentially other builders will supply more than $4 billion of houses.

Growth rate since summer 2005



Source: John Burns Real Estate Consulting

Madison Realty Capital moved into rentals with clients that used to focus on developing apartment buildings and owner-occupied subdivisions. On Thursday, it closed a $110 million loan on a project in Los Angeles, where 220 of the nearly 700 home sites are being sold to investors. The original plans, derailed by the housing crash, didn't envision any rentals.

"A lot of things that would have been for-sale housing are going to be for-rent housing," said Josh Zegen, Madison's managing principal.

Bruce McNeilage began building houses to rent out around Nashville, Tenn., in 2005. After the housing crash, his Kinloch Partners expanded into other Southeastern markets, flipping occupied rentals to bigger investors.

Kinloch was financed mostly by community banks in the cities where it rehabbed foreclosures and built rentals. These days Kinloch can borrow far more from Walker & Dunlop Inc., WD **0.39%** ▲ a commercial real estate lender forging into suburban rentals. Mr. McNeilage's problem is that others are bidding up houses and lots.

"I am boxed out," he said. "There's too many people chasing things and they're willing to overpay. It's silly money right now."

The business of selling entire neighborhoods to investors is illustrated by the Amber Pines at Fosters Ridge subdivision in Texas.

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