

# United States Senate

WASHINGTON, DC 20510

May 12, 2022

The Honorable Marcia Fudge  
Secretary  
U.S. Department of Housing and Urban Development  
451 7th Street S.W.  
Washington, DC 20410

Dear Secretary Fudge:

We request that the Department of Housing and Urban Development (HUD) use its existing authority to preserve the opportunity for all Americans to have a fair shot at owning a home, which is increasingly out of reach for many American families because of Wall Street firms and private funds that are purchasing single-family homes in bulk. We are concerned that these investment activities will make home ownership less available and affordable for American families and jeopardize HUD's ability to meet its mission "to create strong, sustainable, inclusive communities and quality affordable homes for all."<sup>1</sup>

Recent data show that investor activity in the housing market reached new highs over the past year. At the end of last year, investors accounted for 18.4% of all home purchases, a 43.9% increase compared to the year before.<sup>2</sup> By contrast, first-time homebuyers accounted for only 26% of purchases in November 2021, down from 33% in 2020 and representing their lowest share since 2014.<sup>3</sup> Investor activity has also been highly concentrated in mid- and low-priced homes.<sup>4</sup> It is troubling that a significant – and growing – portion of our country's starter homes are being purchased not by families who want to live in them, but by speculators who want to use them to generate financial returns for their investors.

While these trends are alarming, they are not surprising. Indeed, large investors benefit from a number of advantages that allow them to outcompete first-time homebuyers.

- First, large investors have ready access to cheap capital. This allows them to make more competitive all-cash offers, which can quadruple their chances of beating out an offer from a first-time homebuyer that requires financing.<sup>5</sup> More than 75% of all investor home

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<sup>1</sup> Department of Housing and Urban Development, "Mission," <https://www.hud.gov/about/mission>.

<sup>2</sup> Redfin, "Real Estate Investors are Buying a Record Share of U.S. Homes," Dana Anderson and Sheharyar Bokhari, February 16, 2022, <https://www.redfin.com/news/investor-home-purchases-q4-2021/>.

<sup>3</sup> National Association of Realtors, "November 2021 REALTORS Confidence Index Report: First-time Buyer Share Falls to 26% in November With Nearly 1 Million Renter Households Priced Out of the Market," Scholastica (Gay) Cororaton, December 23, 2021, <https://www.nar.realtor/blogs/economists-outlook/november-2021-realtors-confidence-index-report-first-time-buyer-share-falls-to-26-in-november-with>.

<sup>4</sup> Redfin, "Real Estate Investors are Buying a Record Share of U.S. Homes," Dana Anderson and Sheharyar Bokhari, February 16, 2022, <https://www.redfin.com/news/investor-home-purchases-q4-2021/>.

<sup>5</sup> Redfin, "All-Cash Offers Quadruple a Homebuyer's Chances of Winning a Bidding War," Dana Anderson, March 22, 2022, <https://www.redfin.com/news/most-effective-bidding-war-strategies-2020-2021/>.

purchases were paid with cash,<sup>6</sup> compared to just 7% of home purchases by first-time homebuyers.<sup>7</sup> That means the typical first-time homebuyer is simply unable to make a winning offer in today's hypercompetitive housing market.

- Second, large investors are able to take on more risk than families in order to win bidding wars. Institutions routinely waive contingencies like home inspections, financing, and appraisals that are designed to protect homebuyers. These waivers, combined with all-cash offers, means families do not have a fair shot at competing with investors for an increasingly dwindling supply of homes.<sup>8</sup>
- Third, large investors are able to buy homes through bulk sales. Sellers are typically "iBuyers," companies that use algorithms to estimate a home's value, make a cash offer, and flip the home.<sup>9</sup> Although most iBuyer sales are still to families, an increasing share are sold in bulk to investors.<sup>10</sup> In 2021, iBuyers sold 20% of inventory to investors, representing a 150% increase over two years.<sup>11</sup>

Investment in single-family homes by large institutions is compounding the current supply shortfall and affordability crisis for young and middle-class families. Large Wall Street-backed firms now own between 400,000 and 600,000 homes.<sup>12</sup> While that may represent a relatively small share of our country's housing stock, this figure is too high at a time when single-family homes available for sale are at their lowest level in forty years. Moreover, the homes in large institutions' portfolios are more likely to be starter homes in the most desirable neighborhoods in the highest-growth metropolitan areas.<sup>13</sup> Taking the most attractive homes out of the sales channel and placing them into the rental channel further restricts supply, which means home prices continue to increase and American families remain locked out of homeownership.<sup>14</sup> As a result, they are unable to lay down roots in their communities. If left unchecked, this trend threatens to create a wide generational gap in homeownership and wealth for millennials. The

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<sup>6</sup> Redfin, "Real Estate Investors are Buying a Record Share of U.S. Homes," Dana Anderson and Sheharyar Bokhari, February 16, 2022, <https://www.redfin.com/news/investor-home-purchases-q4-2021/>.

<sup>7</sup> National Association of Realtors, "Highlights From the Profile of Home Buyers and Sellers," November 11, 2021, <https://www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers>.

<sup>8</sup> Money, "Why Investors Are Scooping up So Much Real Estate – and How Regular Homebuyers Can Compete," Aly J. Yale, February 3, 2022, <https://money.com/housing-investor-trend-tips-to-compete/>.

<sup>9</sup> The New York Times, "Is iBuying Here to Stay?," Debra Kamin, November 19, 2021, <https://www.nytimes.com/2021/11/19/realestate/ibuying-ilending.html>.

<sup>10</sup> Bloomberg, "Zillow Seeks to Sell 7,000 Homes for \$2.8 Billion After Flipping Halt," Patrick Clark, Sridhar Natarajan and Heather Perlberg, November 1, 2021, <https://www.bloomberg.com/news/articles/2021-11-01/zillow-selling-7-000-homes-for-2-8-billion-after-flipping-halt>.

<sup>11</sup> Mike Delprete, "iBuyer Sales to Investors Soar," Mike Delprete, February 23, 2022, <https://www.mikedp.com/articles/2022/2/23/ibuyer-sales-to-investors-soar>.

<sup>12</sup> Real Estate Consulting, "Build-to-Rent: The Single-Family Rental Boom," December 2021, p. 7, <https://www.rclco.com/wp-content/uploads/2021/12/Advisory-BFR-SFR-Research-Presentation-Slides.pdf>.

<sup>13</sup> Slate, "Investment Firms Aren't Buying All the Houses. But They Are Buying the Most Important Ones." Elena Botella, June 19, 2021, <https://slate.com/business/2021/06/blackrock-invitation-houses-investment-firms-real-estate.html>.

<sup>14</sup> *Id.*

National Association of Realtors recently labeled the combination of low inventory and low affordability the “two troubles” of the housing market.<sup>15</sup>

Large institutional landlords are shamelessly profiting from the “two troubles.” Invitation Homes touts to investors that it targets “attractive neighborhoods in in-fill locations with multiple demand drivers, such as proximity to major employment centers, desirable schools, and transportation corridors.”<sup>16</sup> Tricon Residential openly acknowledges in its marketing materials that “[h]omeownership in the United States is becoming increasingly out of reach due to rapidly rising home prices” and describes these developments as “favorable industry trends that support our strategy.”<sup>17</sup> Blackstone discloses in SEC filings that its real estate investing platform “has earned a reputation in the market as the preeminent buyer of large, complex transactions because it is decisive and can close quickly.”<sup>18</sup> These Wall Street firms have promised to their investors that they will outcompete American families for a dwindling supply of starter homes. If left unchecked, their activities will continue turning would-be homebuyers into renters.

Making home ownership unaffordable and unavailable for American families places upward pressure on rents. Studies have found that institutional investors, in their endless chase for profits, are also more likely to raise rents,<sup>19</sup> helping to drive housing costs further upward and straining families’ budgets. It is no coincidence that areas with highest share of investor purchases, like Jacksonville and Charlotte,<sup>20</sup> are also experiencing the sharpest increases in home prices and rents.<sup>21</sup> This trend threatens to make the dream of owning a home unattainable for an entire generation. According to one county property assessor, Wall Street investors are “equity-mining” communities and “removing generational wealth for an entire demographic of people.”<sup>22</sup> First-time buyers are the biggest losers in an ultra-competitive housing market dominated by big institutions.

But unfortunately, HUD policies have not kept pace to level the playing field between families and large investors. Through the Claims Without Conveyance of Title (CWCOT) program and bulk sales of Real Estate Owned (REO) properties, HUD has unfortunately played a role in allowing these conditions to persist.

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<sup>15</sup> National Association of Realtors, “The ‘Double Trouble’ of the Housing Market,” February 2022, <https://cdn.nar.realtor/sites/default/files/documents/2022-the-double-trouble-of-the-housing-market-02-07-2022.pdf>.

<sup>16</sup> Invitation Homes, Prospectus Supplement to Prospectus dated July 30, 2021, at 1, <https://www.sec.gov/Archives/edgar/data/1687229/000119312522084708/d322791d424b5.htm>.

<sup>17</sup> Tricon Residential, Prospectus Supplement to the Short-Form Base Shelf Prospectus dated August 26, 2021, at S-13, <https://www.sec.gov/Archives/edgar/data/0001584425/000119312521293995/d685626dsuppl.htm>.

<sup>18</sup> Blackstone Real Estate Income Trust, Inc., Prospectus dated February 25, 2022, at 3. <https://www.sec.gov/Archives/edgar/data/1662972/000095012316013220/filename1.htm>.

<sup>19</sup> New York Times, “Why the Road is Getting Even Rockier for First-Time Home Buyers,” Sophie Kasakove, April 23, 2022, <https://www.nytimes.com/2022/04/23/us/corporate-real-estate-investors-housing-market.html>.

<sup>20</sup> The Washington Post, “Buyer demand reaches record high as investors snap up homes,” Michele Lerner, December 1, 2021, <https://www.washingtonpost.com/business/2021/12/01/buyer-demand-reaches-record-high-investors-snap-up-homes/>.

<sup>21</sup> Bloomberg, “Home Values in Already Hot U.S. Market to Surge 14% This Year, Zillow Says,” Claire Ballentine, January 4, 2022, <https://www.bloomberg.com/news/articles/2022-01-04/top-10-hottest-housing-markets-in-2022-zillow-sees-u-s-home-prices-surgin-14>.

<sup>22</sup> The Washington Post, “This Block Used To Be For First-Time Homebuyers. Then Global Investors Bought In,” Peter Whoriskey, Spencer Woodman and Margot Gibbs, December 15, 2021, <https://www.washingtonpost.com/business/interactive/2021/investors-rental-foreclosure/>.

In September 2021, President Biden announced his commitment to making our dwindling housing supply available to families, rather than large investors. The announcement appropriately notes that owner-occupants and non-profits are less likely to be aware of these programs and are more likely to require financing, giving investors an unfair advantage.<sup>23</sup> As a result, these homes are “too often...sold to large investors, who either flip them for profit or rent them out.”<sup>24</sup>

Specifically, President Biden tasked HUD with:

- Exploring changes to the Second Chance CWCOT program by September 2022, including providing an exclusive listing period during which only governmental entities, non-profits, and owner occupant buyers may submit bids for these properties in the Second Chance sales and setting a target of at least 50 percent of these properties each year being conveyed to governmental entities, non-profits, and owner occupant buyers.<sup>25</sup>
- Extending to 30 days the REO first look period, during which potential owner-occupants and qualified non-profit buyers are exclusively permitted to make an offer.<sup>26</sup>
- Improving outreach to nonprofits, local governments, and other interested community organizations for REO sales in order to further educate them on the note sales process for distressed properties.<sup>27</sup>

Given recent trends in investor activity and skyrocketing housing costs, we urge HUD to take swift action to increase the affordable housing supply for American families by stemming the flow of homes to large investors. We respectfully request answers to the following questions by June 1, 2022:

1. President Biden tasked HUD with exploring changes to the Second Chance CWCOT program by September 2022, including providing an exclusive listing period during which only governmental entities, non-profits, and owner occupant buyers may submit bids for these properties in the Second Chance sales and setting a target of at least 50 percent of these properties each year being conveyed to governmental entities, non-profits, and owner occupant buyers. What is the status of these proposed changes?
2. Since extending the REO first look period to 30 days, has HUD witnessed an increase in property sales to owner-occupants and non-profits? If so, how many additional homes were sold to these entities?

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<sup>23</sup> The White House, “FACT SHEET: Biden-Harris Administration Announce Immediate Steps to Increase Affordable Housing Supply,” press release, September 1, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/>.

<sup>24</sup> *Id.*

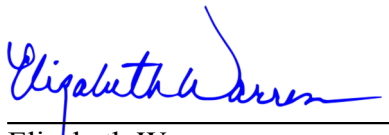
<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

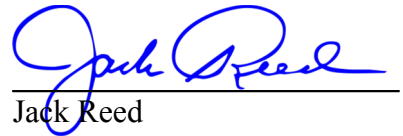
3. So far, what efforts has HUD made to expand outreach to non-profit entities, local governments, and other interested community organizations to further educate them on the note sales process for distressed properties?
4. How many single-family homes does HUD estimate are currently owned, directly or indirectly, by large institutional investors, defined as landlords with more than 50 homes? Please include in the estimate homes that may be owned by this category of landlords on a principal basis and through sponsored or advised pooled investment vehicles.
5. To better understand the profile of single-family homes owned by large institutional investors, please provide estimates of the following:
  - a. The average sale price of homes that they own.
  - b. The geographic distribution of homes that they own.
  - c. The socioeconomic characteristics of the neighborhoods in which their homes are concentrated.

Sincerely,



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Elizabeth Warren  
United States Senator



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Jack Reed  
United States Senator