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Housing-Investor Crackdown Helps Builders

BY REBECCA PICCIOTTO

President Trump is taking aim at big institutional investors that buy single-family homes. But one Wall Street group active in the housing market stands to benefit from his crackdown.

The build-to-rent business is exempt from Trump's executive order to restrict large investors from purchasing homes. So-called BTR developers build neighborhoods of new single-family homes specifically for the purpose of renting them out, either on their own or by selling the homes to institutional investors.

It is a small but growing corner of the single-family rental industry. Build-to-rent has generally avoided American politicians' ire because it allows institutional investors to own homes without competing against individual home buyers for the existing housing stock.

Build-to-rent has already become more popular on Wall Street in recent years. Big firms like Invitation Homes and Premium Partners still buy some existing homes, but they are increasingly pivoting toward build-to-rent within their single-family rental operations.

Now, with Trump's new carve-out, that gradual movement toward BTR is poised to turn into an all-out sprint.

"There's going to have to be a change in the model," said Trevor Koskovich, Northmarq's head of investment sales. "This is great for the build-to-rent segment."

That transition over time could fundamentally change American suburbs. Build-to-rent communities expand mostly in the suburbs because they require swaths of land not available in cities. That means that neighborhoods historically dominated by homeowners could see a flush of new rental communities, said Brad Case, chief residential economist at Homes.com.

"I wouldn't be surprised to see some change in the owners versus renter mix," he said.

The White House has limited capacity to regulate institutional housing investors without an act of Congress. Still, Trump's decision to shield build-to-rent from his line of fire is set to transform a decade-old industry.

Wall Street sprung onto the

single-family rental scene in the wake of the subprime mortgage collapse that began in 2007. As the U.S. housing market cratered, private-equity firms invested billions to scoop up the wreckage of foreclosed single-family homes for cheap.

Invitation Homes, American Homes 4 Rent and Premium were all founded in 2012 as the single-family rental industry boomed nationwide. These companies said they offered rentals in desirable neighborhoods with good schools where tenants couldn't afford to buy.

In recent years, as home prices and interest rates surged, the business of buying one-off homes significantly slowed. In the first quarter of 2023, following a year when mortgage rates roughly doubled, big single-family rental companies purchased 75% fewer homes than the year before, according to John Burns Research and Consulting.

Note

Meanwhile, more build-to-rent companies sprouted up. And institutional housing investors began to buy big portfolios of newly constructed homes directly.



Developers that build single-family homes to rent, like American Homes 4 Rent, stand to benefit. DUSTIN CHAMBERS FOR WSJ

from top home builders, such as D.R. Horton and Lennar.

Since 2012, more than 321,000 build-to-rent homes have gone up in the U.S., according to John Burns. More than three-quarters of that new supply was built in the past five years.

Investors were already starting to favor build-to-rent for a few reasons. As homes get more expensive, demand is growing for long-term rentals, especially in pricier suburbs that some buyers can't afford. And concentrated BTR neighborhoods are less expensive for companies to manage than individual homes scattered across different areas.

The build-to-rent model also offers housing investors a line of defense against mounting political attacks accusing them of pricing out individual buyers from the American dream of homeownership.

Now, Trump's exemption provides BTR additional cover: "We are part of the solution," said Richard Ross, chief executive of build-to-rent developer Quinn Residences. "We are building entire communities from the ground up."

Trump instead is targeting large institutional housing investors that buy existing homes. The effort is meant to address the high cost of homeownership— a top voter concern ahead of this year's midterm elections.

Housing economists say banning institutional investors will do little to unlock homeownership for individual buyers. Over the past several years, institutional landlords with 100 or more properties accounted for just 1% of all U.S. home sales on average, according to John Burns, though large investors have accounted for a bigger slice of home sales in some hot markets, including Houston, Phoenix and Las Vegas.

Questions still remain about Trump's BTR exemption. The executive order calls for "narrowly tailored exceptions" for build-to-rent properties. That likely means that institutional investors will be safe if they commission new single-family rental communities from builders, or develop them themselves.

But it doesn't clarify whether that includes home builders that market their land to institutional investors before deciding whether to build homes for sale or for rent.

With members of the Senate preparing legislation to restrict investor activity in the housing market, many companies are pausing on new single-family rental deals until new rules are codified. But at least for now, BTR developers and investors are breathing a sigh of relief.

No pg 3