THE TEXAS TRIBUNE

Gov. Greg Abbott wants the Texas Legislature to rein in investors behind large-scale home purchases

So-called institutional homebuyers noticeably ramped up home purchases during the COVID-19 pandemic. But housing experts point out investors have retreated amid high interest rates.

BY JOSHUA FECHTER MARCH 15, 2024

Gov. Greg Abbott called on state lawmakers Friday to try to limit Wall Street's presence in the Texas housing market.

As the nation's housing affordability crisis continues unabated, lawmakers and housing advocates have increasingly concentrated scrutiny on so-called institutional homebuyers, meaning investors big and small as well as corporations who buy single-family homes to rent them out. They accuse corporations and hedge funds of playing an outsized role in the homebuying market and outbidding would-be first-time homebuyers, even though estimates show investors own only a small percentage of the nation's overall housing stock.

A spike in investor activity in the housing market in the COVID-19 pandemic era has since prompted lawmakers to try to curtail or even ban it as a means to bring down home prices and give first-time homebuyers a leg up in the market.

"I strongly support free markets," Abbott wrote on the social media site X on Friday afternoon. "But this corporate large-scale buying of residential homes seems to be distorting the market and making it harder for the average Texan to purchase a home. This must be added to the legislative agenda to protect Texas families."

Abbott didn't detail the scope or what kind of action he would like lawmakers to take. His office did not return requests for comment Friday.

Investors ramped up their home purchasing noticeably during the pandemic, when interest rates were at historic lows. Texas, in particular, was a major hotbed for investor activity in the homebuying market as demand for housing skyrocketed amid the state's robust growth.

Texas led the nation in home purchases by investors in 2021, according to the National Association of Realtors — 28% of all homes sold that year went to an institutional investor. That share was even greater in exceptionally high growth markets like Tarrant County, where investors accounted for some 52% of home sales.

Those figures prompted state lawmakers last year to try to rein in investor activity in the Texas housing market, or to at least calculate the scale of that activity. Those efforts went nowhere.

Texas lawmakers approved a bill to commission an annual report from the Texas Real Estate Research Center at Texas A&M University to track institutional buyers' moves in the state's housing market. But Abbott vetoed the bill — part of a rash of vetoes he used to pressure then-warring Republican legislators to agree on a massive property tax cut package.

Economists and housing experts questioned Friday whether limiting investors from buying and owning homes would improve the housing market and benefit first-time homebuyers. Institutional investors' share of single-family homes in some parts of the country can be high, researchers say, but it's unclear how much they distort the overall housing market. An estimate from the Brookings Institution pegs institutional investors' share of the nation's single-family rental stock at about 3%.

Limiting or barring institutional investors from purchasing homes, who then rent out those homes, would mean fewer rental units overall, said Daryl Fairweather, chief economist at Redfin. That could potentially bar renters, who tend to have lower incomes, from living in wealthier neighborhoods with access to better school districts and job opportunities, she said.

"If you say none of these single-family homes can be rented out, or you make it harder for them to be rented out, you make it harder for families to live in the neighborhoods that have the best schools or have the best parks, amenities, transit, whatever it is that single-family neighborhood has going for it," Fairweather said.

Institutional investors aren't buying as many homes as they did during the pandemic, owing to high interest rates. Investors with at least 1,000 homes in their portfolio made up 0.4% of U.S. home purchases at the end of the fourth quarter last year, according to figures provided by John Burns Research and Consulting, a firm that tracks the housing industry. That's down from a peak of 2.4% in 2022.

That trend was apparent in some parts of Texas. In the Dallas area, the number of investor purchases peaked in early 2022 at around 40,000, figures from John Burns show. By the end of 2023, those purchases had fallen to a little more than 20,000, in line with pre-COVID levels.

Amid higher interest rates, Texas has more homes on the market now than it did during the hot pandemic-era housing market.

"Investors have not sucked all of the inventory out of the market," said David Jarvis, principal at John Burns.

But inventory is still tight. Instead of going after institutional investors, Fairweather said, Abbott should throw his weight behind statewide zoning reforms aimed at loosening local land-use regulations to allow more homes to be built.

Texas lawmakers flirted with those kinds of measures last year, but they died quietly in the Texas House. Meanwhile, Austin officials have enacted policies to allow up to three homes to be built on single-family lots — and are expected to vote to allow homes to be built on smaller parcels.