Sound Off #2 (Industry Professional Response): The Institutionalization of Single Family Homes

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Abstract
As the housing crisis has drawn considerable attention to the housing industry, “deals” are becoming more and more scarce, which is fine with me. The US housing market was never meant to be a speculator’s bonanza. It is actually a very predictable and stable asset class for creating cash flow and capital appreciation. All the attention paid to finding deals loses sight of the fact that at its core, US housing is an accumulation play, not a flip.

Keywords
Cornell, real estate, single family home, investment, home prices, local markets

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It is true that housing investment has always been the domain of the small investor, and the entry of the large institutional investors crowds the market for the small guy. There is a silver lining though, and the institutional presence is a net positive for a few reasons.

First, the surge of demand institutional investors created in 2010 and 2011 gave us the bottom of the market. Owner occupant purchases of single family homes were down 15.5% in 2011, but investor purchases were up 65%. 2011 was the bottom of the market because of the actions of less than a dozen large scale investors. They showed much more confidence than the traditional home buying market—the mom and pops—at just the right time.

A few years have gone by and those institutions are providing the price stabilization that comes when new demand enters a market. Although other buyers, especially first time buyers, are being driven out of the market because of institutional competition, every homeowner in America is benefiting from the impact of this new demand in the form of price appreciation—not to mention the millions of people who can’t own but still wish to live in a single family home.

Second, the single family market was always considered a great investment, but was never an institutionalized asset class. It had never been placed under the Wall Street microscope, nor was it organized with institutional quality data, management, and systems. That is taking place rapidly now, and what is being learned about the movement and behavior of single family real estate is very positive. It performs in a very dependable way when not manipulated, and is driven by one of the most reliable forces on earth - demand for housing in the US.

This new understanding, and all the new data and tools developed for investors buying thousands of homes, benefit investors at every level. My best analogy is this: The internet was invented for some very serious purposes. None of them involved me buying running shoes on line. But now I can buy running shoes on line.

In the end, this asset class still favors the little guy. Local presence, first-hand market knowledge and personal control over the property is not so easy with a national portfolio, but it is with a local one.