April 14, 2017

Is the Share of Real Estate Sales to Investors Increasing?

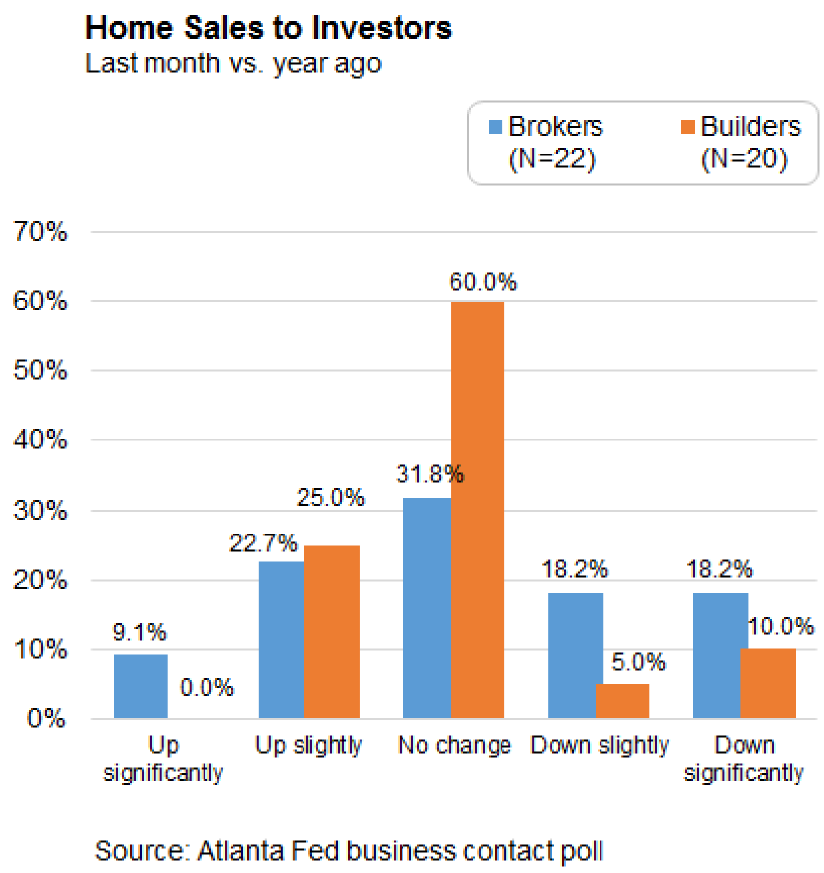
In early February, our monthly Construction and Real Estate Survey came back with a few comments that called attention to increasing investor home buying activity in certain Southeast markets.

> **Central Alabama**: "We are as busy in early February as we usually are in May! I heard today that a busload of investors came to town recently because they'd been told [we have] a great cash flow market. Haven't heard that kind of talk since 2005."

> **Metro Atlanta**: "I checked on the percent of homes we sell to investors. The answer is 19% so far this year. That is the highest level since the recession. Actually, that is a little scary because with rate increases and a fall in investor confidence, this section of the market will go away overnight. Before the last recession when we were in the bubble, investors were making up about 50% of the market in some lower-price neighborhoods. Keep an eye on sales to investors; anything over 10% is a little scary to me."

Given that we did not solicit comments on this specific topic, we wondered what these comments may signal. Was investor activity increasing in isolated markets, or was this increase more widespread? We decided to dig a bit deeper in our March poll, using special questions to gather more information on the trend in investor activity. We also turned to other data sources for additional clues. In short, what we found is that, while there may have been an increase in investment activity in some Southeast markets, investor activity does not appear to have increased in a material way at a national level.

In our March 2017 poll, we asked residential brokers and homebuilders to indicate whether home sales to investors had increased, remained unchanged, or decreased over the course of the previous year. While some respondents did see an increase in investor buying in their markets, the majority of builders indicated no change. Broker responses came in mixed. Interestingly, more brokers than builders indicated that investor activity was down.



To get a more complete picture, we also asked our business contacts to describe the distribution of home buyers in their market in the previous month (that is, the shares of sales to first-time buyers, repeat/move-up buyers, and investor buyers). On average, respondents indicated that 13.9 percent of home sales in February 2017 across the Southeast were to investors. Because we asked this

ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

In December 2020, content from *Real Estate Research* became part of *Policy Hub*. Future articles will be released in *Policy Hub: Macroblog*.

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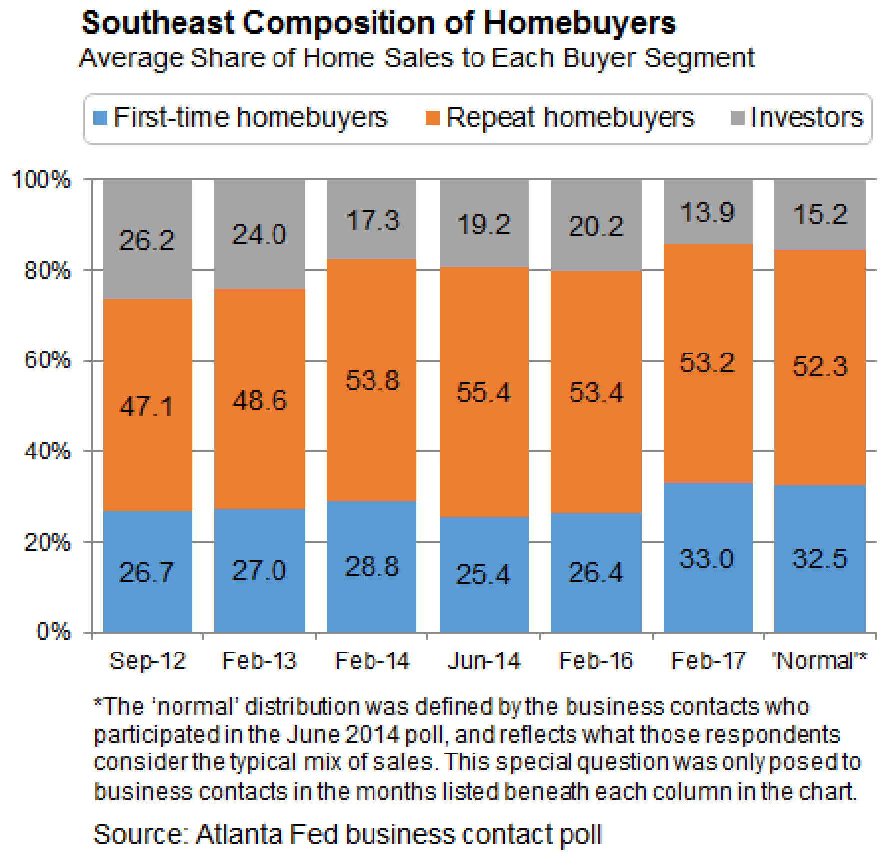
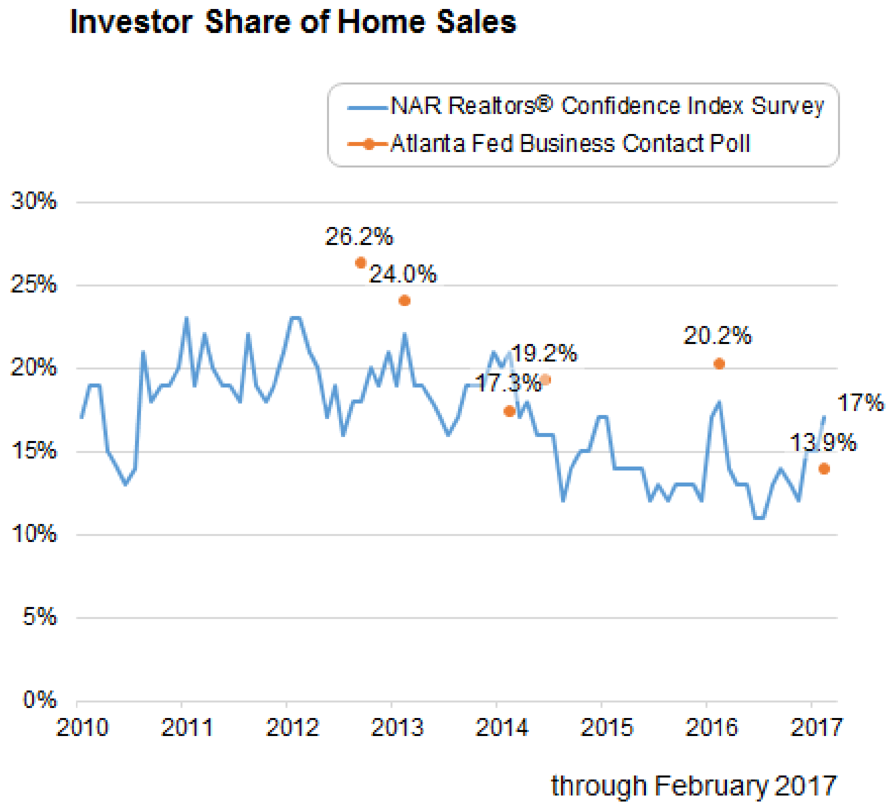
question in the past, we were able to compare the response to previous periods. Interestingly, the investor share has trended downward since we started asking this question in 2012, and registered its lowest reading to date.



*The 'normal' distribution was defined by the business contacts who participated in the June 2014 poll, and reflects what those respondents consider the typical mix of sales. This special question was only posed to business contacts in the months listed beneath each column in the chart.

Source: Atlanta Fed business contact poll

Out of curiosity, we wondered how our results compared with those from the National Association of Realtors (NAR), which asks a similar question about the share of sales to investors in its monthly survey, the Realtors® Confidence Index. The main difference between our survey and the NAR's survey is that our respondents are limited to the Atlanta Fed's Sixth District while the NAR's respondents are spread across the nation. After plotting our Southeast results on the same axis as the national NAR time series (see below), we found that both series appeared to trend downward over time.



Observing a similar trend in both series provided some assurance that investor activity has not ramped up to the extent that it had prior to the housing downturn. However, it is difficult to say what influence (if any) the results of the ongoing NAR survey had on our panel's responses. To get a third perspective, we turned to the Campbell/Inside Housing Mortgage Finance Housing*Pulse* Tracking survey, a proprietary national-level monthly survey that ran from July 2009 through November 2016. The Campbell survey asked a similar question. This survey also shows a downward shift in the trend in the investor share of all home sales.

While these three separate surveys point to a broadly similar trend of declining investor share of sales, we felt it was important to consider other measures for tracking investor activity. Another potential proxy measure could be the share of flipped properties to home sales. CoreLogic's *Insights Blog* recently featured a couple of posts (here and here) that highlighted the current state of flipping. The author of the posts, Bin He, defined a flipped property as a property that was bought and sold within a 12-month period. He found "the ratio of flips to sales stands at 4.9 percent in 2016, which is well below the peak value of 7.5 percent reached in 2005." While a property flipper is just one type of investor, this analysis serves as one more piece of evidence that pushes back against the idea that investor activity has picked up in a material way.

To conclude, certain areas around the Southeast may have seen an increase, but investment activity does not appear to have increased in a material way across the nation. Although the measures we refer to above do not necessarily provide an apples-to-apples comparison, they independently but collectively provide some reassurance that investor activity has not returned to where it was at the height of the bubble (which of course is hard to pinpoint exactly because few of these more robust measures date back that far). The hope, of course, is that one or more of these measures would provide some type of signal if investment activity were heading in that direction again.

By Jessica Dill, economic policy analyst specialist in the Research Department

February 13, 2017 in Uncategorized | Permalink