Behind the Rise in House Prices, Wall Street Buyers

The New York Times By NATHANIEL POPPER | New York Times – Mon, Jun 3, 2013 7:23 PM EDT

The last time the housing market was this hot in Phoenix and Las Vegas, the buyers pushing up prices were mostly small time. Nowadays, they are big time — Wall Street big.

Large investment firms have spent billions of dollars over the last year buying homes in some of the nation's most depressed markets. The influx has been so great, and the resulting price gains so big, that ordinary buyers are feeling squeezed out. Some are already wondering if prices will slump anew if the big money stops flowing.

"The growth is being propelled by institutional money," said Suzanne Mistretta, an analyst at Fitch Ratings. "The question is how much the change in prices really reflects market demand, rather than one-off market shifts that may not be around in a couple years."

Wall Street played a central role in the last housing boom by supplying easy — and, in retrospect, risky — mortgage financing. Now, investment companies like the Blackstone Group have swooped in, buying thousands of houses in the same areas where the financial crisis hit hardest.

Blackstone, which helped define a period of Wall Street hyperwealth, has bought some 26,000 homes in nine states. Colony Capital, a Los Angeles-based investment firm, is spending $250 million each month and already owns 10,000 properties. With little fanfare, these and other financial companies have become significant landlords on Main Street. Most of the firms are renting out the homes, with the possibility of unloading them at a profit when prices rise far enough.

While these investors have not touched many healthy real estate markets, they are among the biggest buyers in struggling areas of the country where housing prices have been increasing the fastest. Those gains, in turn, have been at the leading edge of rising home prices nationwide.

Some see the emergence of Wall Street buyers as a market-driven answer to the nation's housing ills. Investment companies are buying up rundown homes at a time when ordinary people can't or won't.

Nationwide, 68 percent of the damaged homes sold in April went to investors, and only 19 percent to first-time home buyers, according to Campbell HousingPulse. That is helping to shore up prices and create confidence in the broader markets.

"When people write the story of this housing recovery, these investors will be seen to have helped put the floor under the housing market," said David Bragg, an analyst at Green Street Advisors. "In some of the key markets, that contributed to the recovery."

The story, though, often looks more complicated on the ground. Joe Cusumano, a real estate agent in Riverside County, Calif., said that in recent months 90 percent of his business had been for companies like Invitation Homes, a Blackstone subsidiary. Home values in Riverside County have risen by 15 percent in the last year, according to CoreLogic.

But Mr. Cusumano said he wondered if faraway investors would properly maintain the homes they buy. He said that Invitation Homes had been willing to put money into the properties, but he was not so sure about the other players. He also worries what will happen when these investors start selling, as they inevitably will.

"The thing that scares me is the values going up so quickly," said Mr. Cusumano. "That's what happened before and that's what's scaring me. Is this going to happen again?"

The idea of investors' buying homes and renting them out is nothing new. But in the past, landlords were almost always local. Now big investors are using agents like Mr. Cusumano to stake a claim to entire neighborhoods.

In a sign of the potential peril ahead, some of the investment firms have recently taken the first steps to cash out.

The investment fund financed by Colony Capital filed last week to go public, the second firm to do so in May. Another early player in the business, the Carrington Holding Company, said last week that prices had risen too far, leading the firm to begin selling some of its holdings.

Fitch Ratings warned last Tuesday that prices for single-family homes in the regions with the biggest housing rebounds had been outpacing the growth rate in the local economies and "could stall or possibly reverse" if big investors start selling.

"We see economies that continue to struggle — we don't see them recovering enough to justify this drastic increase in prices," said Ms. Mistretta at Fitch.

Despite the recent gains, housing prices remain well below their precrisis highs. In Riverside, for example, home values are still down more than 40 percent from their 2006 records, according to CoreLogic.

To the extent that the housing rebound is becoming overheated in some pockets, it does not carry the most significant risks of the real estate boom that came crashing down in 2008. The new investment groups are not heavily indebted, making them less vulnerable to small movements in real estate values, and the risks are not spread as widely through the financial system.

Nearly all of the big investors have insisted that they plan to rent the houses they are buying for years to come. The Blackstone unit, Invitation Homes, has opened 14 offices across the country to serve the homes it has bought, a spokesman for the firm said.

At American Residential Properties, which went public in May, the chief executive, Stephen G. Schmitz, said that if other firms start selling their houses, "we'll step up our buying."

He added: "We still think that we're in a buyer's market."

Yet some investment companies are already pulling back in the markets that have had the fastest growth. In Phoenix, the percentage of all house purchases involving investors fell to about 25 percent in March from a high of 36 percent last summer, according to the Campbell HousingPulse Survey. The same survey shows that investors have been increasing their presence in new areas like Florida and California.

All of this has made it hard for house hunters like Jeff Martin, who is looking to buy a fixer-upper in Riverside County. Mr. Martin, 58, has made offers on 15 houses over the last year. Last Wednesday, he received his latest rejection. On most of the houses, Mr. Martin has lost out to investors offering all cash.

Mr. Martin, a retired Navy veteran, puts much of the blame on banks that have been holding onto empty houses, lowering the supply of available homes. He said he has trouble faulting the investors, given that he was involved in real estate financing during the last boom. But he is worried that if mortgage rates begin to rise he will lose out on his opportunity to buy. Rising mortgage rates could also lead to a broader slowdown in the real estate recovery.

Mr. Cusumano said that the investors he works for have been trimming back their purchases in the area. His agency closed on three houses for investors in May, down from eight in February.

But the fevered pitch of the market has not died down.

In late May, one of his clients closed on a house just a month after it went on the market. There were eight bidders, despite a listing that said "NEEDS TLC!!" Mr. Cusumano's client won the house only after agreeing to go $500 over the asking price of $194,500.

“It’s just a strange market,” he said. “We are in uncharted territory.”