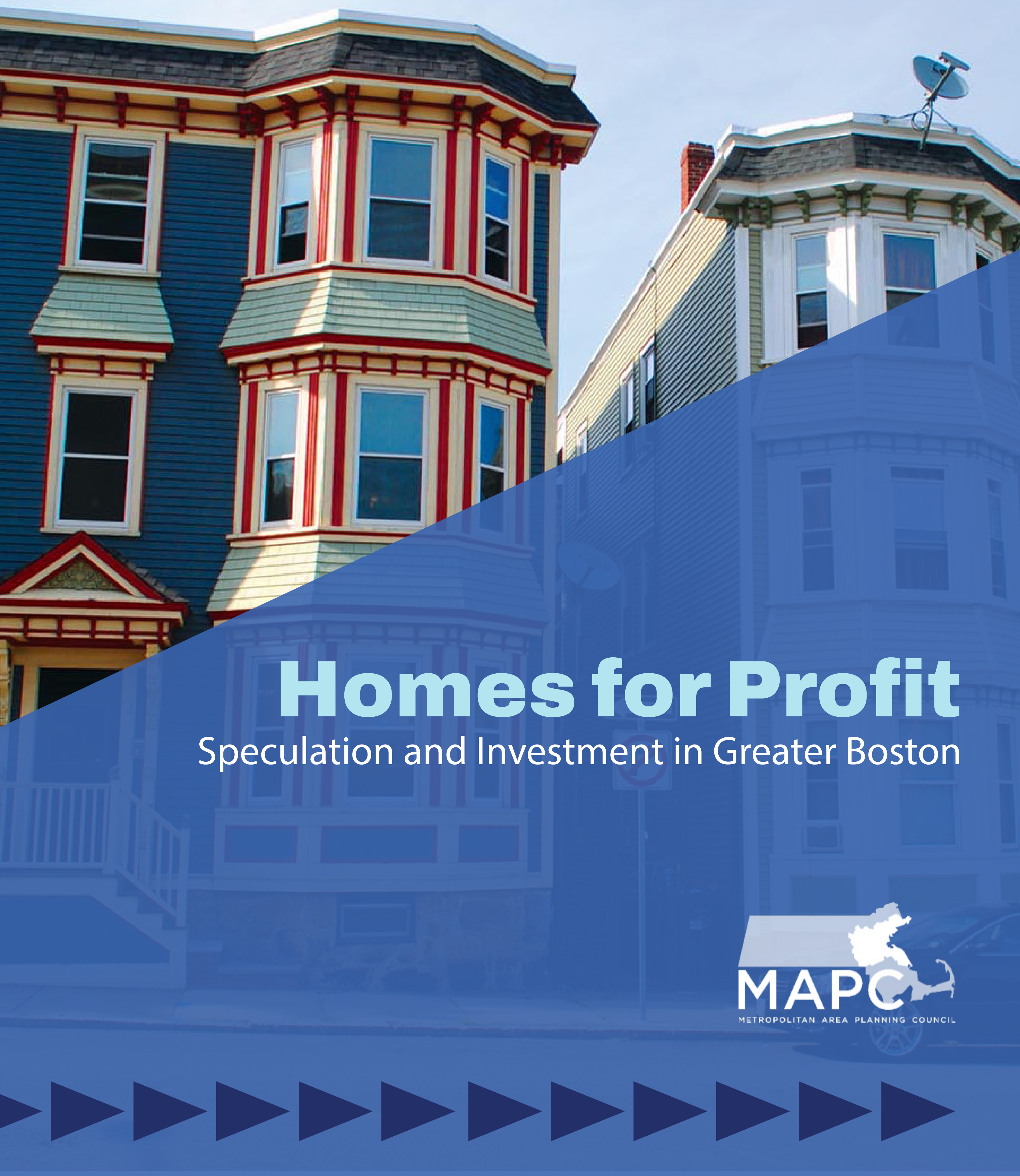
Executive Summary



Homes for Profit

Speculation and Investment in Greater Boston

MAPC

METROPOLITAN AREA PLANNING COUNCIL

Decades of inadequate housing production and strong economic growth have led us into the housing crisis we face today. Speculative investment in the housing market exacerbates this crisis.

- Investors Take Naturally Occurring Affordable Housing Units Off the Market
- Cash Gives Investors an Advantage
- High-Density, Racially and Ethnically Diverse Urban Markets Impacted the Most
- Large Scale Investors Flip Homes for Profit
- Policy Recommendations to Reduce Real Estate Speculation

Buying a home has long been a critical opportunity for building wealth in America, yet over the past several decades that opportunity has moved farther out of reach for most households. In today's Boston Metro housing market, an annual income of nearly $200,000 is needed to afford a median-priced home.[1] Renters struggle, too, to afford a place to stay, with rent increases outpacing income growth: a record 51% of Greater Boston renters spend more than 30%—and more than a quarter spend more than half—of their income on housing costs.[2]

Speculative Investment Exacerbates Housing Crisis

Decades of inadequate housing production across Greater Boston, coupled with strong economic growth attracting workers to the region, and resulting shortages in housing stock have led us into the housing crisis that we face today. Amidst this crisis, another phenomenon has emerged that has only made the situation worse: investors betting their funds on housing. Sometimes called corporate investors, institutional investors, or speculators, these are entities purchasing residential property with profit, not shelter, as a primary goal. This report examines the scale and scope of housing investment as a practice in Greater Boston.

The impact of this practice cannot be overstated. Not only do investors take properties off the market that could otherwise be sold to families intending to live in a home, but renters often suffer from investors buying their buildings and hiking up their rents, if not evicting them outright without cause. Through several case studies of buildings recently sold to investors in the Greater Boston area, we see new investor-owners, often those with large real estate portfolios hidden behind numerous LLCs, ask long-term tenants to pay rent increases of up to 70% or leave the building they have long called home.

Buying Obstacle

In today's Boston Metro housing market, an **annual income of nearly $200,000** is needed to afford a median-priced home.

Renting Obstacle

A record **51% of Greater Boston renters spend more than 30%**—and more than a quarter spend more than half—**of their income on housing costs**.

[1]Redfin News, "Homebuyers Must Earn $115,000 to Afford the Typical U.S. Home. That's About $40,000 More Than the Typical American Household Earns," October 17, 2023, https://www.redfin.com/news/homebuyer-income-afford-home-record-high/.

[2]The Boston Foundation, 2023 Greater Boston Housing Report Card, November 14, 2023, https://www.tbf.org/news-and-insights/reports/2023/november/2023-greater-boston-housing-report-card

Through an analysis of residential real estate transactions, our research finds that 21% of residential properties sold in Greater Boston in the period from 2004 through 2018 were purchased by an investor. We define four types of residential property investors: 1) count investors, who purchased more than three residential properties within any five year window in the study period; 2) LLC investors, who purchased any residential property through an LLC, 3) building investors, who purchased any residential building with four or more units, and 4) value investors, who spent at least $3.45 million on residential properties over the 23-year period, or an average of at least $150,000 annually throughout the period. These definitions are not mutually exclusive, and many investors are classified as multiple investor types. We categorize these investors into four investor size groups, with small, medium, large, and institutional investors defined respectively by their total annual spending and the scale and pace of their acquisitions during the study period. We also investigate the practice of flipping properties, defined as any property sold within two years of its most recent purchase date, with notable exceptions for foreclosures and same-day sales. We examine the frequency of flipping and the profit margin for flipping properties by investors and non-investors. We explore the spatial patterns of residential investment and flipping, and the underlying racial and socioeconomic dynamics those patterns reveal.

Research finds that **21%** of residential properties sold in Greater Boston in the period from 2004 through 2018 **were purchased by an investor**.

Cash Gives Investors an Advantage

This research exposes clear and worrisome trends in residential real estate investment in Greater Boston. In addition to finding that one in five residential transactions from 2004 through 2018 were conducted by investors, our analysis also finds that the rate of residential investor activity has grown over time. While investor activity represented 16% of sales in 2004, that number rose to 23% in 2018, with significantly higher investment rates in two-family (over 30% in 2018) and three-family (nearly 50% in 2018) acquisitions. Our analysis also finds that investors come to the table with a clear advantage: cash. Cash offers are more appealing to sellers than traditional mortgages, so much so that cash offers are often accepted even if they are not the highest bid, allowing buyers to purchase properties at a discount. More than half of investors who purchased condominiums during the study period did so in cash, with similarly high proportions for single-family (43%), two-family (45%), and three-family (39%) purchases.

+50% of investors who **purchased condominiums** during the study period did so **in cash**, with similarly high proportions for

43% single-family

45% two-family

39% three-family

High-Density, Racially and Ethnically Diverse Urban Markets Impacted the Most

Speculative residential investment is far from evenly distributed in Greater Boston. Using MAPC's Housing Submarkets to analyze investor activity in Greater Boston's varied housing markets, our research finds that investor activity is most likely to occur in the region's high-density urban submarket with relatively low housing prices (Submarket 2), which is home to the highest share of renters, Black, Indigenous, and People of Color (BIPOC), and immigrant populations of the region's seven submarkets. Investors made nearly one-third of all purchases over the study period in Submarket 2. Households in this submarket already face the highest cost burdens, with a quarter of households spending more than half their income on rent. Likewise, investor activity was high in the densest and most expensive submarket, Submarket 1, as well as in the moderate-density moderately priced Submarket 3, which has a mix of high- and low-cost housing and racial and immigrant populations comparable to the regional average. While we see less investor activity in suburban markets with high prices, they too have experienced an increase in investor activity since the 2008 recession.

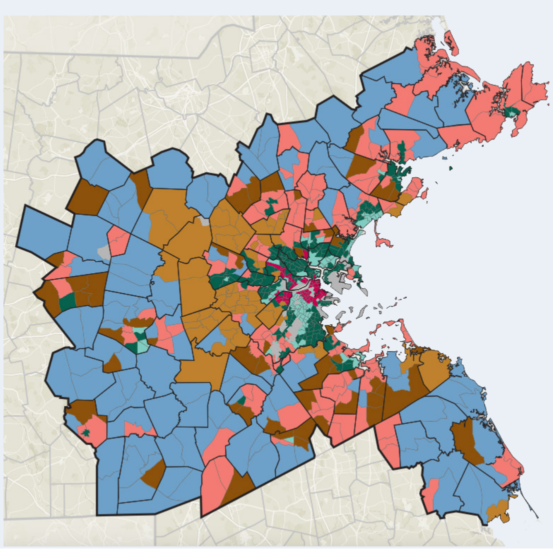
9% of residential buildings bought in Greater Boston between 2002 and 2022 were **flipped** within the next two years, with the highest flip rates among:

apartment buildings **12%**

three-families **11%**

What are Submarkets?

A housing submarket is a collection of neighborhoods—some next to each other, some not—with similar housing stock and housing market characteristics. These characteristics determine who can find, afford, and remain in suitable housing in that neighborhood. The neighborhoods in each submarket share common needs and challenges, regardless of geographic location. MAPC's study revealed seven distinct housing submarkets in the Greater Boston region.



Submarket 1 High-Density Urban, High Prices

Submarket 2 High-Density Urban, Lower Prices

Submarket 3 Moderate-Density Urban, Moderate Prices

Submarket 4 Low-Density Urban-Suburban Mix, Lower Prices

Submarket 5 Low-Density Suburban, Highest Prices

Submarket 6 Low-Density Suburban, Mixed Prices

Submarket 7 Low-Density Suburban, Moderate Prices

Large Scale Investors Flip Homes for Profit

We find that 9% of residential buildings bought in Greater Boston between 2002 and 2022 were "flipped" within the next two years, with the highest flip rates among apartment buildings (12%) and three-family homes (11%). Large and institutional investors were the most likely to flip the homes they purchased, with nearly a quarter of single-family homes and a fifth of two-family homes purchased by large or institutional investors being flipped, compared to rates of just 8 and 9% respectively for non-investor buyers. While flips occurred at similar rates across submarkets, we found flipping to be most common in Greater Boston's highest value submarket, Submarket 5. Comprised of low-density, high value suburban areas, flips in this submarket contribute to pushing these already "exclusive" neighborhoods farther out of reach for the average Massachusetts resident. Finally, we find that investors resell their flipped properties for significantly more than the original purchase price, compared to non-investors. Since 2010, investors who flipped their single-family properties have seen re-sale prices a median of 55 to 85% higher than they originally paid for the properties; by comparison, non-investors who flip properties have seen re-sale prices at a median of only 12 to 25% higher in– the same period.

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Policy Recommendations

State and local governments should take actions to reduce speculative real estate investment and to mitigate its impacts on tenants and local housing markets.

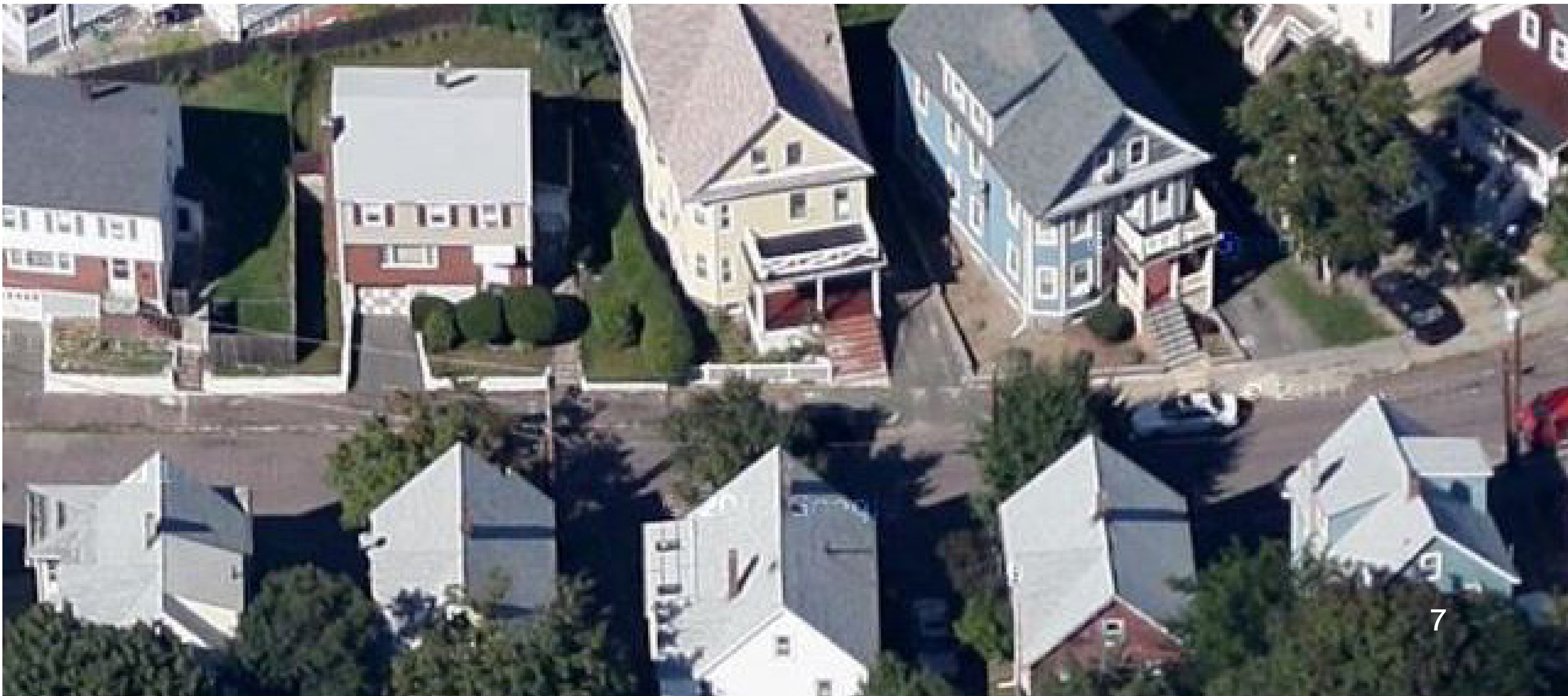
Discouraging Speculation	- Local option tenant right of first refusal, with financial support - Local option rent stabilization - Transaction transparency
Generating Resources	- Local option transfer fees - Statewide deeds excise tax - Deeper foreclosure protections for owners and renters
Providing Assistance	- Residential Assistance for Families in Transition (RAFT) - Massachusetts Rental Voucher Program (MRVP) - First-time homebuyer assistance - Foreclosure protections - Foreclosed property sale for affordable housing - Local property tax rate reform

Policy Recommendations to Reduce Real Estate Speculation

In response to these trends, we recommend a set of policy solutions to discourage speculation, generate revenue for affordable housing from the speculation that does occur, and provide housing assistance and greater stability to Massachusetts residents. Policies such as establishing a tenants' right of first refusal and regulating rents, as well as state and local foreclosure protections and acquisition programs, first time homebuyer assistance, and municipal property tax reform could help improve housing affordability in Massachusetts, especially by retaining the affordability of some of the housing that already exists. Where implemented, these policies reduce incentives for speculation by expanding market access for affordable housing developers, limiting the potential profits from speculation, and better enabling low- and moderate-income homeowners to stay in their homes. We further identify local option transfer fees and statewide deeds excise increases as potential mechanisms to capture and reinvest revenue from investment activity. Through their basis in a percentage of a property's value, these mechanisms allow both state and local government to ensure that revenue generated for affordable housing can keep pace with rapid escalations in housing costs. Transfer fees have the added benefit of potentially deterring speculative investors with large portfolios, and disincentivizing short-term flipping. These mechanisms ensure that a measure of the value, which investors extract from communities is reinvested in those communities to mitigate housing instability, and along the way help to reduce housing instability brought on by speculators buying up residential real estate without community benefit in mind.

For More Information Visit:

mapc.org/resource-library/homes-for-profit/



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