Institutional Investors and Housing Affordability in Texas

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Executive Summary

Texas has long experienced unprecedented population growth, benefitting both from those migrating to the United States and Americans fleeing other high-cost states for the opportunities and, historically, lower cost of living Texas provides. According to the Office of Texas Comptroller, approximately 225,000 people moved to Texas between 2021 and 2022, however, homebuilding has not kept pace with the influx of new residents. The increased demand and factors such as high interest rates, property taxes; inflation; and rising insurance rates have left Texas with a housing deficit of 306,000 units – second only to California.

As housing affordability in Texas has slowly eroded in recent years, new efforts are emerging to address affordability and preserve what has made Texas the economic juggernaut it has become. Despite widespread interest in this issue, much of the policy comes down to land use or market prohibition.

Those arguing land use contend that overly restrictive development policies, permitting delays, large lot requirements, and other delays add to the cost of building homes. Additionally, they argue that much of the onerous regulation found in Texas' major cities pushes new development into unincorporated areas of Texas counties altogether, as counties don't have the same regulatory authority as cities, and thereby drive up the cost of the limited supply within the major housing markets in the state. While Texas remains affordable, they say, it's those migrating to Texas who are taking advantage of the affordability while those who currently live here struggle under the increases.

On the other side, institutional buyers or investors have emerged, for some, as a culprit of the housing affordability crisis. Driven mainly by a report from a report citing an abnormally high percentage of homes sold in Texas were purchased by institutional investors, which, according to them, would be double the national average and higher than any state.

Those arguing that institutional investors are the source of the crisis claim that investors are acquiring significant portions of single-family and multi-family properties and either selling them for significantly higher prices or renting them at higher rates; both ways, they claim, distort the market and limit supply for Texans seeking to own their own home.

The State of Housing Affordability in Texas

Over the past decade, Texas has transitioned from being a state celebrated for its affordable housing to grappling with a severe housing affordability crisis. Once a haven for spacious and reasonably priced homes, Texas faces mounting challenges as home prices and rents have significantly outpaced income growth. This shift has reshaped the housing landscape, making homeownership increasingly unattainable for many Texans and placing a growing financial burden on the ⅓ of Texans who rent.

The state's rapid economic and population growth has been a double-edged sword. While Texas has led the nation in new building permits for privately owned housing units since 2008, the demand for housing has consistently outstripped supply, particularly in major metropolitan areas such as Austin, Dallas-Fort Worth, Houston, and San Antonio. According to Texas Comptroller Glenn Hegar, elevated home prices and high interest rates have placed significant upward pressure on borrowing costs, further exacerbating affordability issues.

Between 2019 and 2023, median home prices in Texas surged by approximately 40 percent, with smaller metro areas like Brownsville-Harlingen experiencing increases as high as 73 percent. In dollars, the median home price in Texas increased from $157,000 in 2012 to $335,000 in 2023, representing a 113 percent increase over 11 years. The most rapid growth occurred during the pandemic years, with the median price jumping from $259,990 in 2020 to $340,000 in 2022. Although there was a slight statewide price decline of 1.5 percent in 2023, driven by a modest recovery in housing inventory, affordability remains a critical concern. Between 2012 and 2022, rental units costing $2,000 or more per month increased by 253 percent, while the availability of units under $600 plummeted by 40 percent, so more housing units of all types are certainly needed.

The affordability crisis has also disproportionately impacted middle- and low-income households. Nine out of ten Texans believe housing affordability is a significant issue in their communities, with Black and Latino residents expressing higher levels of concern compared to white residents. Moreover, the state currently faces a housing shortage of approximately 320,000 units, further intensifying competition for available homes.

The Texas Housing Affordability Index (HAI), which measures the median family income ratio to the income required to purchase a median-priced home, has deteriorated significantly. In 2019, the statewide median family income was 62 percent higher than the income needed to afford a median-priced home. By 2023, this gap had narrowed dramatically due to rising home prices and increasing mortgage rates.

The rapid rise in mortgage rates—from about 3 percent in 2021 to nearly 8 percent in late 2023—further compounded affordability challenges. This increase marked a 23-year high and contributed to Texas's fastest-ever decline in housing affordability between 2021 and 2023. The combination of higher home prices and elevated borrowing costs has made homeownership increasingly unattainable for many Texans.

Impact of Institutional Buyers on Housing Market

Institutional investors, a definition of which has not been universally agreed upon, like others, are drawn to Texas for several reasons. Texas meets several key criteria: a strong economy, a growing population, and relatively affordable housing compared to other states. The state's rapid economic growth and ongoing migration trends have also contributed to high demand for rental properties, which have been a point of contention. It has been said that institutional investors often focus on single-family homes and communities, converting them into rental properties to generate steady cash flow. This strategy aligns with the broader trend of "build-to-rent" developments, where specific neighborhoods are explicitly designed for renters.

Given the claims about institutional buyers and growing concerns about housing affordability, many immediately focused on the role of institutional buyers in the affordability crisis. These concerns caught the attention of Texas Governor Greg Abbott and state lawmakers.

In March of 2024, Texas Governor Greg Abbott posted on X, “I strongly support free markets.

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's post was in response to a misleading claim that has since been debunked

Inconsistent definitions have led to exaggerated concerns about the impact of “institutional investors” on the single-family home market. According to data from John Burns Research and Consulting, institutional investors with portfolios of at least 1,000 homes accounted for only 0.4% of U.S. home purchases in Q4 2023, down from a peak of 2.4% in 2022. In Texas, corporate investors of every size have not exceeded 20% of home purchases over the last decade, and those made by large institutional investors, Texas A&M’s Real Estate Research Center defines as large publicly traded and private help corporations, have not exceeded 3%.

The United States Government Accounting Office also looks into the issue and a report on the issue:

“Researchers found that institutional investors may have contributed to increasing home prices and rents following the financial crisis. However, it's unclear how these investors affected homeownership opportunities or tenants because many related factors affect homeownership—e.g., market conditions, demographic factors, and lending conditions.”

Separate consideration was given to the issue during the legislative interim by the Texas Senate State Affairs Committee. Following interim committee hearings on the issue, the committee chairman wrote:

“The results of the study also indicated that legislators were correct to be concerned about the impact of large investors on the housing market, however hindsight research now shows that small investors still own the vast majority of single-family rental properties in Texas and large real estate investor trusts (REITs) own only six percent of the single-family rental market.”

The size and scope of institutional investors are far lower than unsubstantiated claims would have anyone believe. Similarly, their overall impact on the cost of single-family homes has been overstated, but they do play a role in the lives of the population they aim to serve.

At 37% or 4.2 million, Texas has the second-largest renter population in the nation. More than half of Texas renters are cost-burdened, spending at least 30% of their income on rent. The average credit score in Texas is 686, ranking in the bottom four in the nation and well below the nationwide average of 705. High interest rates; increasing home values, especially in our major metro areas; lower than average credit scores; and higher homeowners insurance and private mortgage insurance rates, plus flood insurance and windstorm insurance for those of us on the gulf, mean an estimated 85% of single-family renters in Texas would likely not be able to even qualify for a mortgage, much less afford the monthly payments to keep and maintain it.

Young families are most impacted by this shortage—families who have outgrown multi-family housing and are looking for more space to raise their children. But so are older empty nesters looking to downsize and stay in the communities where they've built ties and families, and public employees seeking to live near their workplace, among many others. Increasing the supply of single-family rental homes is just as important as increasing the supply of homes for purchase to provide Texas families with opportunities to improve their living situations.

In reality, corporate investment will be critical to generating much-needed supply, whether building homes for sale or managing homes for rent, which they often do in areas where rental demand is already increasing. It's up to our elected officials to eliminate barriers and create more options for all Texans.

Driving the Cost

Given the conversation surrounding the role of institutional investors and the limited information about their impact, the legislature passed SB 1979 last session to require the Texas A&M University Texas Real Estate Research Center to produce an annual report on the activity of institutional buyers of single-family homes. Gov. Abbott vetoed the bill but State Rep. Caroline Harris Davila has refiled the bill in the 89th Legislative Session.

Rapid Population Growth and Urbanization, and Permitting

Plenty of policy changes have been passed and implemented on the local level in Texas or statewide in other states, directly increasing affordability, allowing for a more diverse housing supply, and providing more flexibility and freedom in development.

Texas has experienced significant population growth over the past decade, with its major metropolitan areas leading the nation in domestic migration. Between 2020 and 2023, the Dallas-Fort Worth-Arlington metro area recorded the largest net domestic migration of any U.S. metro region, driven by job opportunities, economic growth, and relatively lower living costs than other states. However, this rapid growth has placed immense pressure on the housing market, particularly in urban areas, where demand has outpaced supply.

While Texas has been the leading state for new building permits for privately owned housing units since 2008, the pace of construction has not kept up with the state's population increase. As previously mentioned, as of 2021, Texas was estimated to be short by 306,000 housing units. This imbalance between supply and demand has driven up home prices and rents, making housing increasingly unaffordable for middle- and lower-income households.

Embedded in this is the cost associated with delayed permitting. Permitting delays fall into “soft costs” and can account for 20-30% of the cost of a new home. Permitting delays also increase administrative overhead and overall uncertainty. A Washington State study found that each additional month spent in the permitting process increases the cost of building by about $4,400 or 1%. Some have seen two-year delays, but the average is about six months or $26,000 added to the cost of a new home.

Impact of Government Regulations and Zoning Policies

The National Association of Home Builders found that government regulations account for 24.3% of the price of an average new single-family home. Between 2011-2016, these regulations increased by nearly 30%, outpacing the increase in average median income. Of the almost 25% regulatory cost directly associated with a new build, ⅔ of that is incurred during development, and ⅓ of that is incurred during building.

Much can be done to incentivize local governments to automate the permitting process, fast-track permitting done by certain trusted vendors, or even simply offer one point of contact for permitting questions and concerns. In many cities, after permitting reviews are conducted and recommendations are suggested, plans must be resubmitted often without a guarantee of being reviewed by the same person. A new reviewer who might have an entirely different set of recommendations can further delay the process.

Zoning policies, specifically, have significantly limited the supply of affordable housing in Texas outside of permitting and the overall regulatory burden. Minimum lot size requirements, restrictions on multifamily housing developments, and lengthy permitting processes have all been proven to result in higher construction costs and reduced housing availability.

Additionally, local opposition to affordable housing projects, often referred to as "NIMBYism" (Not In My Backyard), has further constrained the development of low-cost housing. This resistance is particularly pronounced in suburban areas, where residents frequently oppose higher-density developments due to property values and community character concerns.

Other Factors

Following the Great Recession's housing bust, the housing market lost workers. Between 2007 and 2013, builders in the nation lost more than 2 million workers, with only 40% returning to the industry.

The shortage of carpenters, masons and other skilled workers led to higher wages, which increase the bottom-line price of homes. And construction worker pay is rising much faster in Texas than in the nation as a whole. Inflation-adjusted average hourly earnings in Texas' construction sector rose by more than 20 percent between 2011 and 2016, versus just 4.7 percent for the U.S. construction sector — and nearly four times the 5.9 percent growth in Texas' total average private-sector earnings.

A limited workforce drove up rates for those who remained in the industry and put a strain on the amount of product that could be produced, further contributing to the affordability strain. Construction costs have also seen their prices increase because of materials. Scott Norman, President of the Texas Association of Builders, said the cost of materials to construct a median-value home in Texas has gone up $30,000 since the start of the pandemic. Land costs have also increased; from 2000-2018, the Texas land price index for single-family homes increased 122%, while nationally, it increased 95%, and land cost accounts for 20.4% of Texas home prices.

Conclusion

The 89th Legislative Session will see several bills to address the housing affordability crisis. Legislators should focus on the provable drivers of cost rather than restricting the ability to purchase supply. Proposed measures include increasing housing supply, revisiting local regulations that hinder development, fostering public-private partnerships to expand affordable housing options, easing the burden of converting commercial to residential property, and maintaining the freedom to develop in unincorporated parts of the state and opposing efforts by counties to gain authority there. The stakes are high, as the state's continued economic growth and quality of life depend on its ability to provide accessible and affordable housing for its residents.

The implications of this affordability crisis are far-reaching. Rising housing costs have exacerbated income inequality, disproportionately impacting low- and middle-income households, particularly minority communities. The shortage of affordable housing has also contributed to increased homelessness, hindered workforce mobility, and created challenges for essential workers in high-demand urban areas. While Texas has led the nation in new housing permits, the pace of construction has not kept up with population growth, leaving the state short by an estimated 306,000 housing units. Addressing this crisis will require a multifaceted approach, including increased investment in affordable housing, regulatory reforms to streamline development, and expanded assistance programs for low- and middle-income households. Without significant intervention, the affordability challenges will continue to strain Texas' housing market and its residents, threatening the state's economic growth and quality of life.

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