

Advancing Homeownership Opportunities

Prepared for Federal Reserve Bank of Philadelphia

Sept 2023

Philadelphia, PA

George McCarthy

President, Lincoln Institute of Land Policy



CENTER FOR
**GEOSPATIAL
SOLUTIONS**



LINCOLN INSTITUTE
OF LAND POLICY

Why Are We Here?

For meritorious reasons we want to expand minority and low-mod income homeownership

- *Close racial/ethnic homeownership gaps*
- *Close racial/ethnic wealth gaps*
- *Preserve the “American Dream” of homeownership as a symbol of family success*

Perilously low supply of available & affordable homes

Why?

- *Low production over the last decade*
- *Loss of existing affordable owner-occupied units*
- *Mischief caused by outside money—housing as a commodity*

Institutional Investment in Single Family Stock

Global investors are increasingly looking towards real estate for yield--lower-risk and higher-reward

In recent years 20+% of transactions in SF market sold to institutional investors

Not uniformly distributed: in some neighborhoods, upward of 70% conversion

Owner Occupied

Investor Rental

Property In-State Rental

State Investor Rental

Property Out-of-State Rental

nd City Council

In-State Business

Multi-Property In-State Business

Out-of-State Business

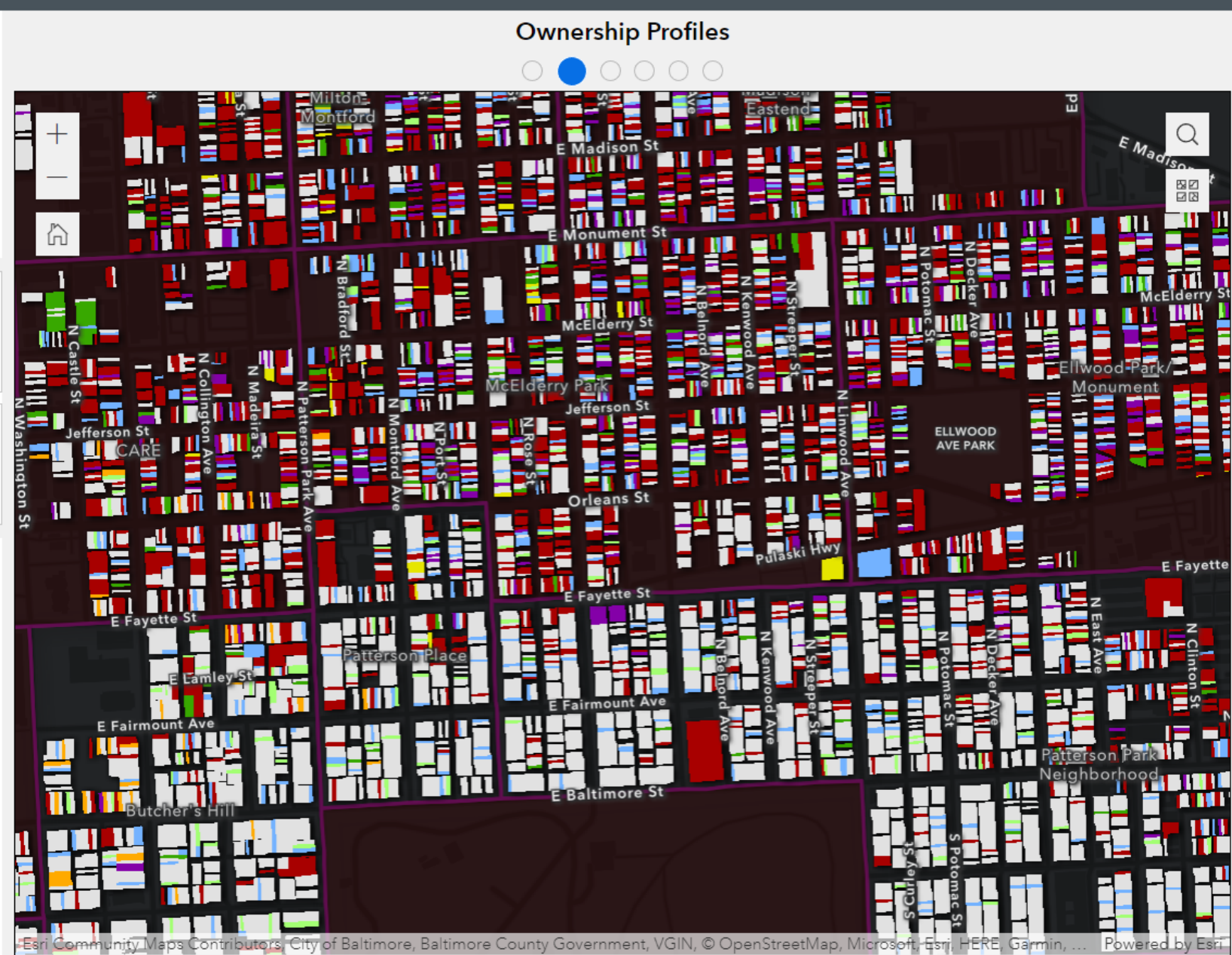
Multi-Property Out-of-State Business

Housing Authority of Baltimore City

to a Neighborhood

to a Council District

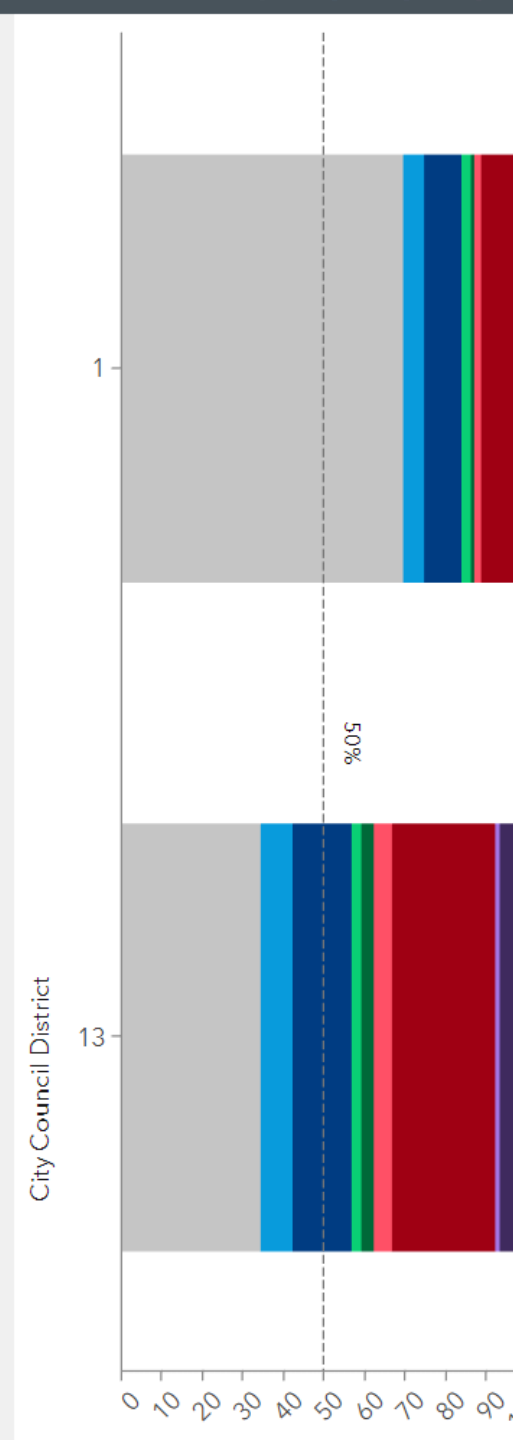
Ownership Breakdown

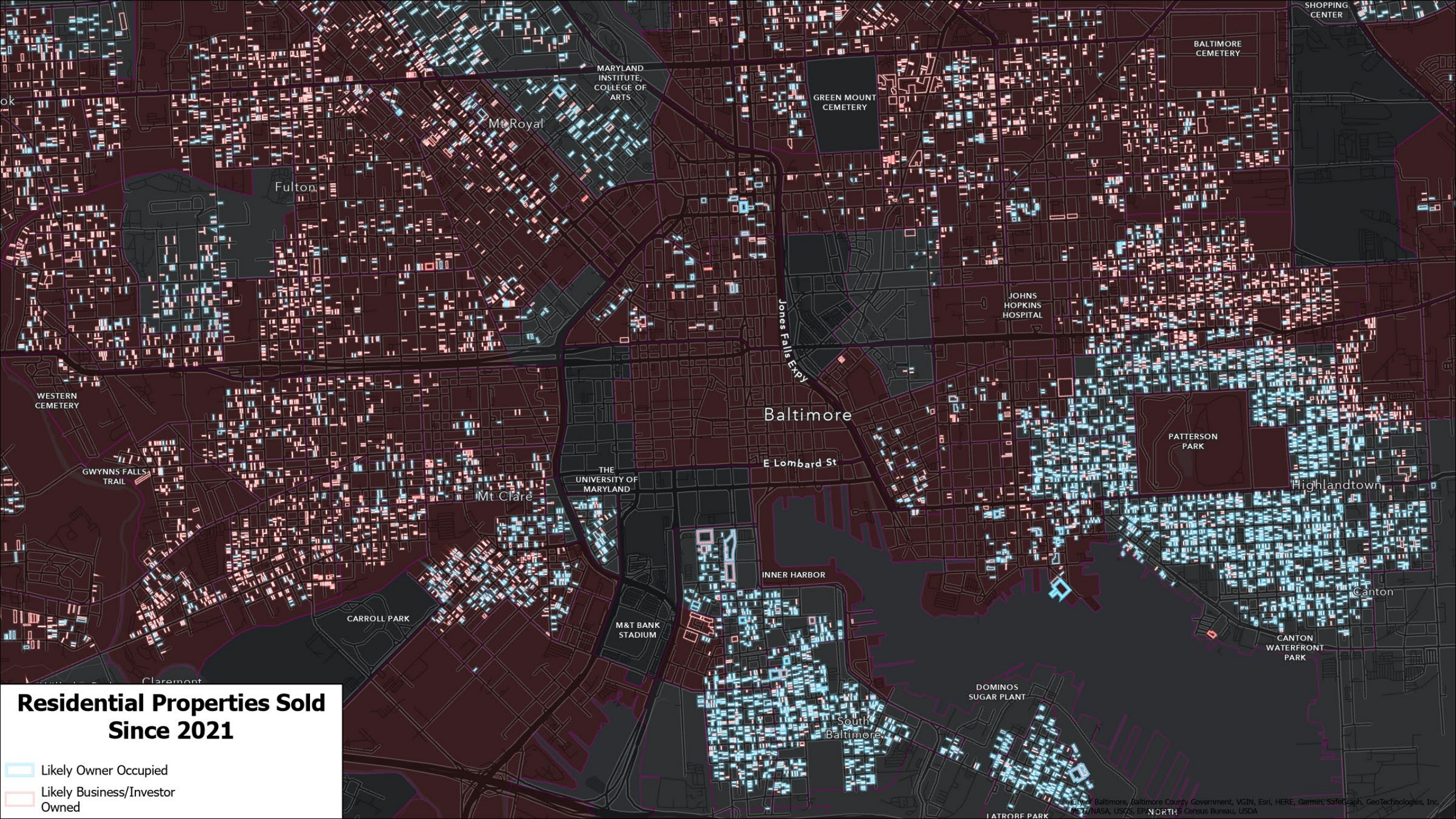


Owner Occupied Properties:
4,003

Total Properties:
8,751

Investor/Business Owned
Properties:
4,748





Residential Properties Sold Since 2021

- Likely Owner Occupied
- Likely Business/Investor Owned

Understanding Ownership Conversion

The economics:

For every \$500 net monthly rental income, capitalized property value increases by \$100,000 (using a cap rate of 6%)

Example: A three-bedroom home that rents for \$2000 a month and produces \$1500/month in net income is worth \$300,000

Why now?

- We've always known that own-rent ratios guide purchase/tenure decisions by individuals
- But pre-GFC, institutional investors stayed away from single-family stock for rentals—even when in the money
- Scattered-site property management non-existent—a major impediment to SF REITs or other arrangements
- Most SF landlords “mom & pop” operations

Necessity spurs innovation

- Blackstone, et al purchase huge inventories of non-performing mortgages beginning in 2010
- Expect to flip properties in 18-30 months
- Property appreciation lagged expectations
- Investors left holding tens of thousands of properties
- Enter Invitation Homes (and others)—scaled, efficient, high-quality scattered-site managers

New SF capital economics

- Scaled scattered site rental owner/management
- Rent-to-own
- New markets to invade
 - Legacy Cities
 - Sub-market

AKRON, OH

- Median House Price: \$206,000
- Median rent (3BR): \$1,389
- Annual net rent revenue (10% management fee): \$15,001
- Capitalized value (6% cap rate): **\$250,020**
- Number of 3+ BR SF homes for sale (<250k): 282

ATLANTA, GA

- Median House Price: \$376,500
- Median rent (3BR): \$2,047
- Annual net rent revenue (10% management fee): \$22,108
- Capitalized value (6% cap rate): **\$368,460**
- Number of 3+ BR SF homes for sale (<\$370k): 1158

ATLANTIC CITY, NJ

- Median House Price: \$317,500
- Median rent (3BR): \$2,399
- Annual net rent revenue (10% management fee): \$25,909
- Capitalized value (6% cap rate): **\$431,820**
- Number of 3+ BR SF homes for sale (<\$370k): 187

MIAMI, FL

- Median House Price: \$605,000
- Median rent (3BR): \$2,734
- Annual net rent revenue (10% management fee): \$29,527
- Capitalized value (6% cap rate): **\$492,120**
- Number of 3+ BR SF homes for sale (<\$370k): 925

Philadelphia, PA

- Median House Price: \$352,000
- Median rent (3BR): \$1,929
- Annual net rent revenue (10% management fee): \$20,833
- Capitalized value (6% cap rate): **\$347,220**
- Number 3+BR SF homes for sale (<347k): 2,569

Where is the public/civic sector?

- Slowly catching up—scale is elusive/expensive
- New efforts:
 - Trust Neighborhoods—Mixed Income Neighborhood Trusts
 - Grounded Solutions—Home for the Future Fund
- All leveraging the new SF economics

Mixed-income neighborhood trusts preserve affordability and belonging

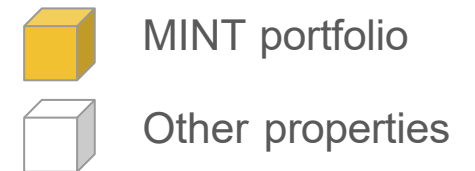
A mixed-income neighborhood trust (MINT) **develops, owns, and operates mixed-income rental properties** throughout a neighborhood

Over time, **unrestricted rents pay for keeping today's affordable rents in perpetuity**, preempting displacement by preserving affordability

A **community-centric governance model** ensures accountable operations to both capital and community

An illustrative MINT neighborhood:

A scatter-site portfolio alongside homeowners and other rental properties



AT A GLANCE

Homes for the Future Fund



What?

An investment fund sponsored by the nation's leader in shared equity homeownership and community wealth building. We are leveraging market forces to substantially increase the supply of permanently affordable homeownership opportunities for Black and Brown communities without reliance on public subsidy.

How?

The Homes for the Future Fund will:

- ▶ Quickly buy single-family homes in growing markets to remove them from the speculative market.
- ▶ Leverage economies of scale to efficiently rent these homes for up to 10 years as they appreciate in value.
- ▶ Transfer the homes to Community Land Trusts for below-market sale to low-income homeowners, using house price appreciation to subsidize the sale.
- ▶ Return principal and modest ROI to investors while unlocking greater long-term impact.

George McCarthy

President & CEO

gmccarthy@lincolninst.edu

www.lincolninst.edu



CENTER FOR
**GEOSPATIAL
SOLUTIONS**



LINCOLN INSTITUTE
OF LAND POLICY