

RESEARCH ARTICLE

The Impact of Private Equity Investment in the Housing Market on Single-Family Home Prices

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Abstract

President Trump recently suggested barring large institutional investors from purchasing single-family homes. Some believe that these large institutional investors, who are primarily private equity firms, inflate housing prices by bidding up prices. The purpose of the present study is to ascertain the impact of institutional investors on the single-family home market. A two-way fixed effects model was estimated using clustered standard errors and weighted observations. Results of the present study suggest that institutional investors have had no statistically significant effects on single family home prices. Hence, President Trump's proposal to limit institutional investments in housing would have no statistically significant effect on housing prices.

Keywords: Institutional Investors, Single-Family Homes, Housing Prices.

1. Introduction

In an effort to address concerns regarding housing affordability, President Trump recently suggested barring large institutional investors from purchasing single-family homes. Some believe that these large institutional investors, who are primarily private equity firms, inflate housing prices by bidding up prices and by making cash purchases with no contingencies. By eliminating the need to wait for mortgage approvals and inspections, cash offers can be closed in a few weeks and are especially enticing to sellers.

In the years preceding the 2008 recession, the United States experienced a large increase in housing construction with the average cost of a home more than doubling. Mortgage debt rose from 61 percent of GDP to 97 percent of GDP between 2001 and 2007, and between 2001 and 2005, an estimated 40 percent of net jobs created in the private sector were housing-related (Weinburg, 2013). This period also saw an increase in the market for mortgage-backed securities (collateralized debt obligations (CDO) and collateralized bond obligations (CBO)), which created a surge in housing credit and increased housing demand and prices. The decline in home values

starting in 2008 put significant pressure on the market for CBOs and CDOs, culminating in the financial crisis of 2008. Home prices continued to fall until they had lost roughly one-fifth of their value by the second quarter of 2011 (Case, Shiller, and Thompson, 2012).

In the aftermath of the recession, large institutional investors began purchasing large numbers of single-family homes, turning them into rental properties and subsequently securitizing these investments in capital markets. Firms such as Invitation Homes, American Homes 4 Rent, and Progress Residential were major players and bought tens of thousands of distressed and foreclosed properties at discount prices. The conditions that enabled this transformation were an ample supply of foreclosed properties, restrictive mortgage financing requirements, and a decline in transaction costs driven by technological advances in property management (Lambie-Hanson, Li, and Slonkosky, 2022).

Although institutional investor participation in the housing market was not unheard of prior to the recession, the pace and scale of the post-2008 institutional acquisitions was fundamentally different,

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resulting in significant increases in concentration and significant price increases. Since 2008, the price of homes nearly doubled, with the sharpest single increase occurring between 2020 and 2022, when prices rose approximately 34 percent in just two years (Federal Housing Finance Agency, 2023).

Private equity firms are the most common type of institutional investors that purchase single-family homes. These types of firms raise capital from other large institutional investors, such as pension funds and from wealthy individuals who are seeking greater returns on their investments. These firms purchase homes and hold them until real estate values increase, typically renting the homes in the interim. As noted above, private equity firms began acquiring distressed properties and converting them into rental housing after the 2008 recession. By 2015, private equity ownership of single-family homes had increased dramatically. In 2015, institutional investors owned between 170,000 and 300,000 single-family homes (U.S. GAO, 2024).

Even though institutional firms account for less than 2% of total U.S. home purchases, their buying strategies gave them an outsized impact in certain local real estate markets (Garriga, Gete, and Tsouderou, 2022). Private equity firms typically purchase three-bedroom, two-bathroom single-family homes priced at the mid-range of the local market, which are the same homes most in demand by entry-level buyers. Private equity firms targeted markets primarily in southern states. For example, in Atlanta, Jacksonville, and Charlotte, private equity firms owned over 18% of single-family rentals by 2022 (U.S. GAO, 2024).

As institutional landlords expanded their influence across housing markets, concerns over their growing market power have led to increased demands for stronger regulatory oversight. Despite mounting pressure, the policy response has been scattered and slow to evolve. Housing advocates have pushed for measures aimed at increasing transparency, strengthening tenant protections, and limiting market concentration. One major area of concern is the lack of visibility into who owns these properties. Private equity firms purchase properties through limited liability corporations (LLCs) with obscure names, effectively shielding them from public scrutiny and responsibility.

Beyond calls for transparency, some experts and advocates are urging policymakers to tackle the issue of concentrated ownership. It has been suggested that policymakers should explore policies designed to limit the market share of corporate landlords in metropolitan markets. This restriction on the purchase

of homes by institutional investors is similar to the policy proposed by President Trump. Therefore, the purpose of the present study is to ascertain the impact of institutional investment on the single-family home market. If it is found that institutional investment resulted in an increase in housing prices, then President Trump's proposed policy may significantly reduce home prices, especially in those areas where institutional investment has been the most pronounced. The following section reviews current research in this area.

2. Literature Review

Prior academic research on the relationship between institutional investment and housing costs is limited. Ganduri, Xiao, and Xiao (2023) found that institutional investor purchases in a given zip code were associated with significant increases in home prices, particularly in markets with low housing supply elasticity. Similarly, Mills, Molloy, and Zarutskie (2019) found that the geographic concentration of institutional single-family rentals happened in neighborhoods that experienced faster home price appreciation relative to comparable areas without such investment activity.

Lambie-Hanson, Li, and Slonkosky (2022) found that institutional investors purchased distressed properties that would otherwise have sat vacant. However, over time, these institutional investors increasingly competed with owner-occupant buyers for non-distressed homes. This finding is important because it suggests that institutional investors went from being a stabilizing force in the housing market to a potentially distorting one.

Many of these prior studies relied on case studies of a single metro area or examined a limited period of time. Few studies have simultaneously examined both home prices and rents, making it difficult to assess the full effect of institutional investment on housing affordability. Additionally, most existing work uses reduced-form empirical approaches that may not adequately control for the endogeneity of investor location choices; that is, investors may deliberately target markets where prices are already rising, making it difficult to separate cause from effect. The present study attempts to address these limitations using panel data and a two-way fixed effects model.

3. Empirical Model

Although anecdotal evidence suggests that private equity firms and other large institutional investors have a negative impact on some local housing markets, there has been no rigorous statistical analysis on the impact of institutional investors on single family home

prices. In order to address that gap in the empirical literature, the following model will be estimated in the present study:

$$Y_{i,t} = \alpha_0 + \alpha_i + \gamma_t + \beta'X + \varepsilon_{i,t} \quad (1)$$

Y denotes the median single-family home price in real dollars (1982-1094), α_i denotes the Metropolitan Statistical Area (MSA) effects, γ_t denotes the year effects, and X denotes the vector of explanatory variables which includes the percentage of homes that were purchased by large institutional investors during the period in question. The other explanatory variables are as follows: real per capita personal income; average days on market for homes sold during period in question; the per capita inventory of homes; the per capita number of homes sold; and the median rent. It is assumed that housing is a normal good so income should have a positive effect on the price of housing. Average days on market is an indicator of the strength of demand for housing. Per capita inventory is an indicator of housing supply. Median rent is the price of a substitute good.

To determine if fixed or random effects was more appropriate in the present study, a Hausman Test was used. Results of the test suggested that fixed effects is the more appropriate model. Hence, a fixed effects model that controls for both MSA-level effects and year fixed effects was estimated. All observations were weighted using MSA-level population to correct for potential heteroscedasticity. Clustering standard

errors was used to correct for potentially nonrandom variations within certain groups.

Data used in the present study was at the Metropolitan Statistical Area (MSA) level. Twenty-six MSA's were examined. Annual data was for the period 2015-2025. The key explanatory variable is the investor market share, defined as the share of home purchases in a given metropolitan area made by entities whose buyer name or ownership code includes keywords such as LLC, Inc, Trust, Corp, or Homes, following the identification methodology used by Redfin in their county sale records data. This measure captures broad institutional and corporate investor activity rather than exclusively large private equity firms and may include a small number of purchases made through family trusts for personal use. Quarterly data were averaged to the annual level to match the frequency of the other variables in the panel.

Apartment rent data were obtained from the Zillow Observed Rent Index (ZORI), which measures rents for residential rental units at the MSA level. The ZORI data is monthly but was averaged to the annual level for the present study. Data on days on market, homes sold, and housing inventory were also obtained from Zillow. Population and per capita personal income data were obtained from the Federal Reserve Bank of St. Louis FRED database. All dollar values were deflated using the CPI-U, base year 1982-1984. Descriptive statistics are presented on Table 1.

Table 1. Descriptive Statistics

Variable	Mean	Standard Deviation
Investor share of home sales	15.55%	5.23%
Real per capita personal income	\$24,027	\$637
Days on market	39.7	18.6
Housing inventory per 100,000 persons	232	141
Houses sold per 100,000 persons	88.75	37.22
Median rent	\$724	\$224
Median home price	\$166,026	\$121,915

4. Results

To determine the impact of investor-owned housing on single family home prices, equation (1) was estimated using a two-way fixed effects model using clustered standard errors and weighted observations. Results are presented on Table 2. These results suggest that institutional investors have had no statistically significant effects on single family home prices. Hence, this result suggests that President Trump's proposal to limit institutional investments in housing would have no effect on housing prices.

All other explanatory variables were significant at the 1% level. For every \$1,000 increase in per capita personal income, median housing prices increased by \$9,275. For every additional day on the market, housing prices fell by \$506. For every additional house in inventory per 100,000 persons, house prices increased by \$95. For every additional house sold per 100,000 persons, house prices fell by \$315. For every \$1 increase in median apartment rents, house prices increased by \$253.

Table 2. Fixed Effects Regression Results

Variable	Coefficient	Test Statistic
Constant	-215761	-6.86***
Investor share of home sales	-37.03	-0.10
Real per capita personal income	9275.02	12.58***
Days on market	-506.141	-4.21***
Housing inventory per 100,000 persons	94.88	4.29***
Houses sold per 100,000 persons	-315.48	-2.93***
Median rent	253.09	9.82***
Note: $R^2 = 99.3\%$, 1% level = ***		

5. Conclusions

The purpose of the present study was to ascertain the impact of institutional investors on the price of single-family homes. Using MSA-level data for the period 2015-2025, it was found that institutional investors had no statistically significant effect on single-family home prices. This result suggests that President Trump's proposal to limit institutional investing in the single-family home market would not result in a decrease in housing prices.

The factors that significantly affected home prices were per capita personal income, days on the market, housing inventory, and per capita sales. Government has little to no influence over the significant factors that affect home prices. Although housing affordability is an important component of overall wealth and economic vitality in a nation, policies that have no effect on housing prices should not be implemented, especially if these policies may have unintended consequences.

In response to the public backlash and proposed policies to curb institutional investing in the single-family home market, private equity firms have tried to position themselves as efficient, well-capitalized providers of housing in a system plagued by chronic underbuilding and inefficiency. In addition, institutional investors presented themselves as professionals in an otherwise disjointed rental landscape. In contrast to smaller landlords, these companies claim to offer residents well-maintained properties, centralized service systems, and more consistent standards of living.

In response to the criticism of institutional investors, it is important to note that home prices have increased dramatically throughout the nation, not just in areas where institutional investors have a large share of the markets. An argument can also be made that, by keeping upward pressure on housing prices in certain real estate markets, the actions of private equity

firms benefited existing homeowners by continually increasing the values of their homes. This produced a wealth effect which allowed current homeowners to increase their consumption of other goods and services.

Finally, although private equity firms have been active in local real estate markets since 2008, it has only been in the last five years that housing prices have increased dramatically. Prior to COVID, home prices and rents increased modestly from year to year. Clearly, there must be other factors that are driving up home prices. The results of the present study provide evidence in support of this theory. Hence, it appears as if private equity firms may just be an easy target when in reality the housing crisis is much more complicated and simplistic solutions will do little to reduce home prices. Further research in this area is warranted.

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