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POLICY SPOTLIGHT

Banning Corporate Investors Will Harm, Not Help, Housing Affordability

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Since the Great Recession, Wall Street firms have been buying large portfolios of single-family homes to manage as rentals and have become an easy scapegoat for rising housing costs. In response, policymakers at the local, state, and federal levels are seeking to limit large firms' ability to buy existing or new homes to manage as rental properties.

But before they do, policymakers should ask why this sector of the housing market emerged. The answer is that regulations at all levels of government limit housing production in all forms, thereby causing prices of the existing housing supply to rise. Making corporate-owned homes illegal will only continue the trend of government driving up housing prices.¹

1. Owner-Occupiers Drive Up Prices; Landlords Do Not

Historically, when they have mortgage access, individual owner-occupiers naturally outbid investors for single-family homes. Large institutions don't have inherent market power over families with access to mortgages because owner-occupiers are willing to pay more for single-family homes than corporate landlords are. Furthermore, in every metropolitan area, homes in neighborhoods with higher rates of homeownership sell at higher price-to-rent ratios than do homes in neighborhoods with lower rates of homeownership.

2. Lending to Borrowers with Lower Credit Scores Has Decreased

Before the Great Recession, individuals with lower credit scores (<760) borrowed 2–3 percent of the total value of owner-occupier housing stock each quarter. Between 2007 and 2009, the proportion of new mortgages going

¹ Kevin Erdmann, "Getting Corporate Money Out of Single-Family Homes Won't Help the Housing Affordability Crisis" (Mercatus Policy Brief, Mercatus Center at George Mason University, May 14, 2024). Scan the QR code below for the full analysis, including sources.



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to borrowers with <760 credit scores dropped more than half and remains that low today. Likewise, the average credit score on new Fannie Mae mortgages after 2008 was about 40 points higher than it had been previously. When individuals no longer have access to mortgages, they no longer have access to the funding that allows them to outbid investors.

3. In Places Where Mortgage Access Dried Up, Investors Bought Homes Because They Were Cheap

After the Great Recession, in neighborhoods where incomes were lower and homebuyers depended more on access to credit, home prices declined, and the share of rented single-family homes increased from 15 percent in 2010 to 17 percent in 2014. Institutional owners were the only sector with the scale to purchase the number of homes that households could no longer buy under the new lending standards. Prices bottomed out when institutional buyers entered the market, and even with those prices at historic lows, households couldn't buy homes without access to mortgages to provide the necessary funding to outbid investors.

4. When Builders Can't Sell New Homes, Rents Rise

Builders can't sell new affordable homes below \$200,000 when existing homes are too cheap, and when builders can't sell new homes, rents rise. The drop in prices during and after the financial crisis was due to suppressed mortgage activity, not because of a decline in the demand for housing. The historically low level of housing production has, predictably, been paired with unprecedentedly high rent inflation because rents on existing homes had to increase until prices of existing homes once again matched the cost of building new homes.

Rising rents on existing homes are now pushing existing home prices higher than the cost of new homes. On net, in recent years, large investors have been sellers of existing homes. Families have been buying rental homes away from investors. Meanwhile, since the COVID-19 era, investors are increasingly helping improve supply conditions by buying new homes to manage as rentals.

5. Institutional Investors Are Not to Blame for Rising Rents

- When new demand for homes comes from owner-occupiers (post-2014), institutional buying slows down significantly (2014–2020).
- Large, institutional owners of single-family homes have never accounted for more than 2–5 percent of purchases in any given quarter.
- Large institutions don't account for even 1 percent of the single-family rental market.
- Tight mortgage standards led to discounted prices while keeping families from buying homes at those lowered prices.

6. Large-Scale Institutional Landlords Are the Solution, Not the Problem

Even with recent growth, large institutions make up a tiny portion of owners of the overall single-family housing stock. Their share alone cannot explain widespread unaffordability.

Along with curtailed mortgage access, zoning and land use rules that block the production of new, denser infill housing limit families' ability to purchase single-family homes in the suburbs and exurbs of our cities.

Right now, the only market segment capable of filling the gap of supply at scale is large institutional landlords. If legislators block this source of new housing, the result will be even higher rents, and ultimately higher housing prices.