Summary of the article Garriga, C., Gete, P., & Tsouderou, A. (2023). "The Economic Effects of Real Estate Investors." ***Real Estate Economics*****,** ***51*****(3), 655-685**

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Real estate investors have increasingly become a focal point for academics, policymakers, and the media, particularly in light of their impact on the housing market. In this article, we analyze a comprehensive database covering U.S. housing transactions between 2000 and 2017. Our study reveals two important findings. First, we classify and document the characteristics of investors in housing markets. Second, we explore how small and mid-sized real estate investors, often overlooked in the literature, have played a critical role in shaping housing markets, particularly post-Great Recession.

While many studies have focused on large institutional investors, such as hedge funds, private equity firms, and Real Estate Investment Trusts (REITs), our analysis highlights the growing presence and impact of small and mid-sized investors. These investors are typically individuals or small companies who purchase properties through legal entities like LLCs or Partnerships, often in the same metropolitan areas where they reside. Their activity is widespread across the U.S., contrasting with larger institutional investors, who tend to concentrate in major metropolitan areas or "superstar cities."

One of the most striking findings is that these small and mid-sized investors have grown substantially in both number and the dollar value of their housing purchases, particularly in the aftermath of the Global Financial Crisis. In 2006, they represented about 8% of housing purchases, but by 2015, this figure had risen to over 16%. This growth coincided with a significant drop in risk-free interest rates and a housing market that was recovering from the bust of 2008, making real estate an attractive investment option. Local investors, in particular, were well-positioned to take advantage of these conditions, purchasing properties close to where they lived and worked.

The increasing demand from local investors has had important implications for housing affordability. Our analysis shows that the increase in activity by small and mid-sized investors has been closely tied to a rise in housing prices, especially in the lower price tiers where first-time buyers typically enter the market. This is a crucial finding because it suggests that these investors are driving up prices for starter homes, making it harder for young and lower-income households to become homeowners.

Our study also reveals that small and mid-sized investors are not merely contributing to rising prices; they are also affecting the overall supply of housing. We find that in areas where these investors are more active, there has been a notable increase in the number of new construction permits, particularly for multi-family properties with five or more units. This suggests that their presence is triggering a response from developers, who are adding more

housing to the market in response to the increased demand created by investors. This new supply has helped to mitigate the upward pressure on prices, although not completely.

Our additional analysis allows us to separate the immediate impact of investor activity—when housing supply is relatively inelastic—from the longer-term effects as new housing units are added to the market. Our results show that in the short run, increased investor activity leads to higher prices and a reduction in the number of vacant units. Over time, as new housing stock comes to the market, the upward pressure on prices weakens, but the effects on affordability remain significant, particularly in areas with limited housing supply.

Another key finding is that the impact of investor activity varies depending on the housing supply restrictions of different metropolitan areas. In regions where housing supply is less restricted, we observe that investor activity affects rents more than house prices. The increasing number of investors participating in this market searching for yield reduces their short-term rate of return. In the medium term the economy recovers, and the yield growth increases with the income of tenants. However, in areas with more rigid housing supply, investor activity leads to sharp increases in house prices, outpacing both rent and income growth. This dynamic highlights the complex relationship between investor activity, housing supply, and affordability, with different outcomes depending on local market conditions.

Our analysis focuses on local investors and utilizes the "local propensity to invest" before the Great Recession as a key factor that affects real estate investors. This allows us to capture the extent to which high-income households in different metropolitan areas were likely to invest in real estate before the financial crisis, based on detailed data from individual tax filings. High-income households that consistently receive business income are a strong proxy for sophisticated investors who are likely to invest in real estate through legal entities. Our analysis shows that areas with a higher pre-crisis propensity to invest saw a greater increase in investor activity after the crisis, particularly among small and mid-sized investors.

In terms of policy implications, our findings are highly relevant to ongoing debates about housing affordability and the role of investors in housing markets. The post-Great Recession period has been marked by a severe affordability crisis in many cities, with rising prices making homeownership increasingly out of reach for many Americans. Our analysis suggests that the presence of smaller and mid-sized investors has exacerbated these affordability issues, while increasing housing construction has mitigated the effects. Policymakers in several cities have already started discussing or implementing measures to limit investor activity in housing markets, and our findings provide valuable insights into the potential effects of such policies.

Overall, our study sheds new light on the role of smaller and mid-sized real estate investors in shaping U.S. housing markets. Their growing presence has had a significant impact on housing prices, affordability, and supply, with important implications for both policymakers and future research.