



## **iBuyers Add Inventory and Consumer Choice to the Rental Housing Market**



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There appears to be a growing concern of institutional investors purchasing homes from *iBuyers*, for rental purposes. Critics complain of Wall Street's growth as landlords, overlooking a valuable inventory source of affordable rental homes: *iBuyers*.

### Sales Channels:

Acquiring homes is the front end of the *iBuyer* business model. They purchase, hold, refurbish and re-sell their purchases. *iBuyers* sell houses to all qualified buyers, including families, small investors, institutional investors and landlords. Leveraging multiple sales channels is common to all *iBuyers*.

Wall Street has become an important resource in providing affordable housing to consumers. Institutional investors purchasing of homes from *iBuyers* adds rental housing to a market that desperately needs them, according to David Howard, the executive director of trade group, the National Rental Home Council. Institutional investors are adding affordable homes in desirable neighborhoods, to households without the cash for a down payment.

The value of institutional investors in the housing market may have been over-stated: Bloomberg News correlated traditional home seller's names with Offerpad, Opendoor and Zillow; using location data provided by Attom Data Solutions. The rate of re-sale was calculated by dividing

the number of sales to investors. The result reflects that in 2021 two out of ten homes were re-sold by *iBuyers* to institutional investors. According to Redfin Corp., investors accounted for approximately 18% of all U.S. home sales in the third quarter 2021.

### Investor Strategies:

Representative for market leader Offerpad said most homes it sells are purchased by individuals. “We have a diverse mix of customers that benefit from the ease and simplicity of our services,” the representative said. “Where investors choose to do business is a function of their strategy.”

A representative for FirstKey Homes, a Cerberus portfolio company, said that it has purchased only 1% of its homes from *iBuyers*. Kathleen McCarthy, global co-head of Blackstone Real Estate, stated that “not one of our portfolio companies have purchased a single off-market home from an *iBuyer*.” Rather, Blackstone Real Estate acquires homes from *iBuyers* that are listed on the open market.

### Take a Closer Look:

Critics may wish to look a bit closer at the *iBuying* concept: The innovation of *iBuying* in the housing market is new and still developing, and although targeting 10% of the residential real estate market in coming years, is in its infancy. *iBuying* allows the consumer-seller to avoid lengthy listings, multiple showings, costly repairs, expensive closing costs and the potential for the traditional retail buyer to change their minds or fail to qualify for a loan.

### Convenience and Consumer Choice:

*iBuyers* reduce time and costs involved in the "instant" purchase of a home, and for this convenience, charge a fee. The fee, and the role of certain transaction-closing services, differs within the *iBuyer* market, and will continue to evolve based on how the consumer votes...with its dollars.

Beyond the negative view of Wall Street’s role in adding rental home inventory to the real estate market, some industry analysts are aligned with the status quo in criticizing the “cost of convenience” which indeed changes the traditional purchase and sale model...*in favor of consumer choice*.

The reality is that the *iBuyer* markets represents an important consumer alternative to the status quo of home selling, buying, renting, mortgage lending and Realtor services. And, it is the forthcoming competition between *iBuyers* and the housing market status quo, that is consistently overlooked as a consumer benefit by critics.

The nuts and bolts of the *iBuyer* business model are easy enough to investigate, and in some circles easy to oppose. A safe assumption is that an important goal for *iBuyers* is the reduction of “traditional” closing costs which offsets the convenience fee.

### The Need for Alternatives:

An “instant cash sale” is particularly true if the consumer needs money from the sale of their home. And proponents of consumer choice find the convenience fee irrelevant under circumstances that might include: job loss, loan default, home foreclosure, serious health issues or an immediate opportunity for new job that requires the sale in order to purchase a new home out of state.

Perhaps critics of institutional investors adding affordable rental inventory, and *iBuyer* convenience fees, should walk a mile in the consumer’s shoes. Critics imbedded with the status quo of mortgage lenders and the title insurance monopoly should applaud the convenience and low-cost alternative of being a consumer with the choice of purchasing a home from an *iBuyer*, or *renting an otherwise unaffordable home from a Wall Street landlord*.

*As Managing Director of PropTech firm iTitleTransfer, LLC Sprink serves iBuyers, iSellers and iLenders with Ownership Transfer Platforms, Business Plans, Marketing Strategies and Sales Initiatives.*

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