Money-Making Strategy: Buy Up Homes, Rent Them Out?

Daily Real Estate News | Tuesday, July 24, 2012

Investment firms, hedge funds, private equity partnerships and others are turning to a new investment strategy that involves real estate and that they believe is a money-making one: Buy up single-family homes in bulk and rent them out for profits.

Their main focus has been buying up foreclosures, snagging them at big discounts, fixing them up, and then taking advantage of the hot rental market.

For example, the private equity firm Blackstone Group in the past year has bought up 2,000 single-family homes at about $300 million. Fortune Magazine calls it “one of the biggest piles of homes ever intentionally put together by an institutional investor.” But, Fortune says, it’s likely not even the largest one nowadays.

The number of homes that these firms are buying all at once differs from most smaller landlord operations in previous years. For example, Kenneth Rosen, a UC Berkeley professor, told Fortune that he’s aware of about two dozen investment funds who are buying up single-family homes and hoping to own up to 10,000 homes across the country.

These investors aren’t buying up in bulk and waiting for home prices to rise either, but they’re wealth-building plan relies on renting these homes out for a profit. They plan to sell only when the economy fully recovers.

According to a report from Goldman Sachs, investors may stand to generate 8 percent investment returns by purchasing and fixing up and then renting out homes.

However, Matthew Desmond, a Harvard professor, says he’s concerned these investment firms will drive up rental prices on homes. Others are also concerned that the investment firms won’t be able to adequately maintain all the properties they own.