



# Building Affordability: Supply-Driven Housing Policy and the Role of Single-Family Rentals

## Doug Wheeler

Director, George Gibbs Center for Economic Prosperity,  
The James Madison Institute

## Executive Summary

The United States is currently experiencing a housing affordability crisis, marked by increasing housing prices and rising rents driven by a lack of inventory.<sup>1</sup> According to a 2025 report from the Harvard Joint Center for Housing Studies, home prices have risen sharply, rising roughly 60 percent since 2019, while existing home sales have dropped to their lowest level in 30 years, reflecting a deepening housing affordability crisis driven by persistent cost pressures and constrained inventory.<sup>2</sup>

Attention from policymakers and the general public has grown regarding the potential role of institutional investors, especially those acquiring single-family homes. Concerns focus on how they may be contributing to the lack of supply and, thus, the unaffordability of housing. However, the data shows institutional investors are a small part of the overall housing market, and that housing supply constraints are the main drivers of rising costs.<sup>3</sup> Single-Family Rentals (SFRs) are a proposed solu-

tion to increase access to safe and quality housing for families who are often priced out of homeownership. SFRs can offer mobility, stability, and quality neighborhoods for children, while investors manage and renovate properties and, in some instances, develop new housing stock through build-to-rent projects.<sup>4</sup>

This brief contends that legislative and policy frameworks should focus on increasing housing supply by improving regulatory systems that hinder development and encouraging private investment, rather than capping, taxing, or regulating investors, which inevitably brings consequences of limited housing choices.

## Housing Affordability, Supply Constraints, and the Investor Debate

Housing affordability pressures have intensified across the United States due to limited inventory and rising housing costs, placing homeownership increasingly out of reach for many families.<sup>5</sup> As a result, institutional investors, including private equity firms and real estate investment trusts, have come under intense political scrutiny, with some policymakers even proposing ownership caps or punitive taxes on investor-driven purchases.

While such suggestions are typically well received, research suggests that the main cause of housing unaffordability is not investor involvement but rather a lack of supply due to regulatory, zoning, and permitting barriers.<sup>6</sup> This brief aims to provide an objective analysis of the roles of institutional investors and single-family rentals in the housing market and to offer research-based policy recommendations to increase housing supply and promote responsible investment. By understanding the root causes of the housing affordability crisis, policymakers can develop solutions that will actually increase access, affordability, and opportunities for families to live in safe, thriving communities.

## Root Causes of the Housing Crisis

The root causes of housing unaffordability are undoubtedly tied to overly restrictive land-use regulations, national supply chain and inflationary pressures, along with tax and insurance structures, not investor activity. Regulations often restrict the type and density of housing that can be built, pushing developers toward larger, more expensive homes, limiting supply, and pushing prices higher.<sup>7</sup> Permitting and other regulatory hurdles also slow down the construction process and delay or block starter-home construction altogether, making it less attractive for developers.<sup>8</sup> Moreover, rising interest rates and increases in property insurance premiums make it more costly to purchase homes, while growing populations and migration to high-demand cities increase competition, further exacerbating the problem.<sup>9</sup> Single-family rentals, which can be defined as stand-alone houses leased to tenants and

not occupied by the owners, are a financially appropriate alternative for families who cannot afford to purchase a home.

Institutional investors, which are commonly large private equity firms, real estate investment trusts, and other organizations, buy SFRs to rent them out. Although they are prominent in public discourse, institutional investors are a small part of the housing market, with most of the rental activity still dominated by small “mom-and-pop” operators.<sup>10</sup> An August 2025 report by the American Enterprise Institute (AEI) found that institutional investors (those owning 100+ rental homes) were relatively minor factors in the single-family housing market. An updated analysis of this data shows that as of November 2025, institutional investors owned only 1.0% of the nation’s single-family housing stock, a level unchanged over the 21 months since March 2024.<sup>11</sup>

## Single-Family Rentals as a Supply and Access Mechanism

Single-family rentals are essential in alleviating housing availability and affordability issues. SFRs provide families with the chance to live in neighborhoods that are safe, have quality schools, and are close to jobs. This helps bridge the gap for those families who cannot afford to own a home due to various barriers, including down payments, taxes, and closing costs. Studies have shown that children benefit from living in quality neighborhoods, resulting in positive impacts on their education, income, and health.<sup>12</sup> The role of institutional investors is crucial in this market, where they provide quality homes through new construction, remodeled, and renovated homes, ensuring they are fit for residential use.

Free from government interference, build-to-rent properties, financed through private capital, can begin addressing supply deficiencies through new construction, which in itself will begin to address housing costs.<sup>13</sup>

## Evaluating Restrictive Investor Policies

Despite the data, some policymakers have called for restrictive policies targeting institutional investors, such as limits on ownership and punitive taxes on purchases. These policies are driven by a narrative that investors are crowding out families and pushing up prices; however, the evidence clearly suggests that institutional investors account for only about one percent of the housing market, and most of this investment is from smaller-scale landlords<sup>14</sup>. Moreover, investor-owned homes are often resold to traditional buyers over time, showing that investment does not have a long-term effect of crowding out homeownership. International and domestic experiences also show the dangers of restrictive policies on investors. In Rotterdam, bans on investor-owned homes resulted in lower housing supply and increased rents,<sup>15</sup> while in Aus-

tin, Texas, regulatory changes that emphasized increasing housing supply were linked to lower rents.<sup>16</sup> These examples show that punitive policies against investors are not likely to make housing more affordable and could have other unintended consequences.

## Additional Considerations

- Institutional SFR operators tend to be **countercyclical investors**, continuing to deploy capital during downturns when small builders and individual investors pull back. This stabilizes construction pipelines and prevents deeper supply collapses following recessions or interest-rate shocks.
- Large operators can efficiently deploy capital into **small-batch, horizontally scaled projects** (townhomes, cottage courts, duplex clusters) geared toward the “missing middle” that traditional multifamily financing disfavors and mom-and-pop investors cannot aggregate.
- Well-located SFRs increasingly serve **mobile workers, younger families, and households in transition** (new residents, divorcees, disaster-displaced families). These households are not marginal homebuyers but renters by choice or necessity.

## Policy Pathways to Expanding Housing Supply: A Supply-Focused Framework

Ultimately, housing affordability can be addressed through a supply-driven approach. Policymakers seeking meaningful progress should focus on expanding production, reducing regulatory friction, and diversifying housing types, including single-family rentals (SFRs) and build-to-rent communities. This can be done by streamlining the permitting process, addressing zoning restrictions, and expanding the types of permitted dwellings to include single-family rentals and build-to-rent projects.<sup>17</sup>

Legislative approaches should encourage private sector participation in the housing market, not penalize it. This can be achieved by investing in the housing market and removing regulatory barriers like excessive impact fees, lengthy discretionary reviews, and restrictive zoning policies that limit density and diversity of housing stock. Research consistently identifies these supply constraints, not investor purchase activity, as the core drivers of high prices and rents.

1. **Encourage Supply-Focused Investment:** Differentiate between punitive measures targeting investor activity and constructive policies that *incentivize new housing production*. Institutional capital, when directed toward new build-to-rent development, expands supply in ways smaller actors cannot.<sup>18</sup>

2. **Avoid Arbitrary Investor Restrictions:** Worded caps, taxes, or bans on institutional participation risk reducing rental options and slowing the entry of new housing units. Evidence indicates institutional SFR investors hold a small share of the nation’s housing stock overall and restricting them would not address underlying supply issues.<sup>19</sup>
3. **Promote Professionalized, Responsible Ownership:** Institutional entities are often able to renovate and maintain property quality more consistently than the average owner, improving housing conditions in neighborhoods that might otherwise see blight or vacancy.<sup>20</sup>
4. **Integrate with Broader Affordability Tools:** Use policy levers such as incentives for deeply affordable units, tax credits for mixed-income developments, and infrastructure investments that reduce bottlenecks. Supply growth only helps if it is paired with policies that ensure access across income levels.

## Conclusion

The evidence is clear: the housing affordability crisis is fundamentally a **supply problem**, not the result of institutional participation in the housing market. Population growth, regulatory friction, rising construction costs, and prolonged underbuilding have combined to limit housing options across income levels.

Single-family rentals and responsible institutional investment play an important role in addressing these challenges. They expand housing availability, provide flexibility for families who are not positioned to buy, and enable the efficient deployment of capital into new housing production. In many cases, these models deliver housing that would not otherwise be built. Efforts to restrict or penalize institutional investors risk producing unintended consequences, e.g., fewer new homes, higher rents, reduced maintenance, and increased market volatility. Such policies do not address the root causes of the affordability crisis and may ultimately make housing less accessible for the very households they aim to protect.

A more constructive approach recognizes that **housing affordability improves when markets are allowed to build**. By removing regulatory barriers, supporting diverse housing types, and encouraging long-term private investment, policymakers can expand supply, stabilize costs, and improve housing outcomes for families across the state.

Housing policy should be guided by outcomes, not assumptions about ownership. When construction is made possible and investment is treated as a partner rather than an adversary, families gain more choices, and affordability for American families follows.

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✉ The James Madison Institute  
The Columns  
100 North Duval Street  
Tallahassee, FL 32301

☎ 850.386.3131

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