International Journal of Sustainability and Innovation in Engineering (IJSIE)
https://www.doi.org/10.56830/IJSIE122023

The Role of Hedge Funds in the Residential Real Estate Market

https://www.doi.org/10.56830/IJSIE12202302

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Abstract
US-based hedge funds have adjusted their investment targets to include the residential real estate market, influencing the availability and affordability of homes. After the 2008 financial crisis, hedge funds moved from operation in stocks and derivatives to real estate as this area had more stability and probable high yields. This paper analyzes the approaches adopted by hedge funds, the buying and extensive conversion of single curb houses and single facilities into rental houses, the use of financial assets, and house swapping. These activities have also contributed to this paradigm shift, affecting housing prices and rent charges in metropolitan regions. The massive capital and flow of strategic properties by hedge funds have increased property prices and rents, bringing homeownership dreams out of reach for middle-income earners and first-time homeowners. These investments introduced positive consequences, including the revitalization of properties and production of profits through property tax, and negative impacts, including displacement and reduced opportunities for small investors to access property investments. The concentration of ownership has tilted markedly towards institutional investors and rentals, especially with the heavy involvement of hedge funds in high-demand locations. The paper demonstrates how and with what effects these investment practices are at work locally, for housing markets and the economy more generally. This article reasons for moderate legislation in that it seeks to reduce undesirable effects and tap into the economic advantages of hedge funds in real estate. Considering different responses and legislation measures, the study reveals that policies should be formulated to create better housing options that do not favor one individual while maintaining market stability. This includes, for example, rejecting large quantities of purchases, improving standards of tenants while improving standards of accommodation, and lastly, investing in affordable housing projects. The study results indicate that hedge funds have positively affected local communities. However, their leadership in the housing market requires closer monitoring to avoid adverse effects on the locals and their viability in the long run.

Keywords;
Hedge funds, Residential real estate, Investment strategy, Bulk purchasing, Single-family homes, Rental income, Leverage, House flipping, Gentrification, Housing affordability.

Introduction

Hedge-fund entities have recently emerged as significant actors in the U.S. residential real estate landscape by shifting accessibility and purchase affordability. While hedge funds were initially associated with large, risky investment products like stocks, bonds, and derivatives, modern hedge funds diversify their investments, and real estate, for instance, became a promising sphere, especially after the 2008 crisis. The shift from financial markets to real estate has significantly changed the housing landscape because hedge funds use tremendous amounts of capital to buy numerous buildings. Their investments have revolutionized the process of purchasing homes, selling them, or even renting homes across the country.

Historically, hedge funds were primarily invested in stocks, especially the high-risk ones. However, due to the effects of the financial crisis of 2008, hedge funds began to invest in more stable instruments such as real estate. Since the existence of a lot of distressed properties, Hedge funds realized there was an opportunity to invest in the residential market, especially single-family homes. In 2008, due to foreclosures, financiers started buying more houses and converting these into rental houses. This triggered many institutional players like Blackstone to buy and convert houses into rented houses. This gave hedge funds a constant source of rental revenues while still being able to look forward to the future value of the cores. This was the start of what was to become a tradition where hedge funds started to invest rampantly in real estate, especially in suburban areas, and became the leading players in the housing industry.

Such hedge funds' role has attracted increasing concerns, especially regarding housing availability and affordability. On the one hand, hedge funds invest a large amount of money into the market, thus promoting development, creating employment through property refurbishments, and generating higher property taxes. On the other hand, their merger and acquisition have enhanced the house price hike, making it difficult for middle-income families and first-home buyers to transact on the houses. As more and more individuals transform their residential units into rental units, it changes the character of tenancy, which leads to escalating rents and a tendency to evict residents, especially those of color and poor neighborhoods.

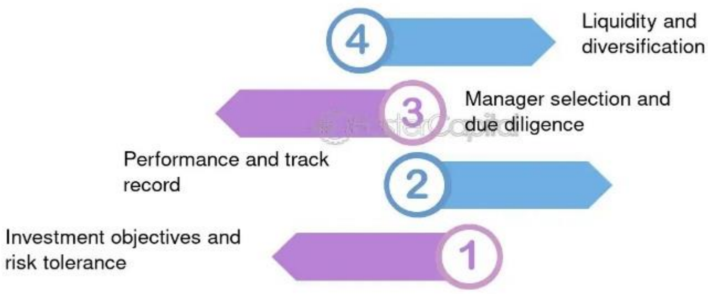

Figure 1: Real estate hedge funds overview

It is noteworthy to emphasize that this study concerns not only owners and tenants but also hedge funds' actions that impact local economies and entire populations. Some of their practices, like buying in large quantities, securitizing rental payments, and house flipping, have devastating effects on housing systems and economic reliability. With hedge funds increasingly active in single-family homes, there are emerging fears of the effects on homeownership, the rental market, and the stability of affordable housing. This article seeks to give a perspective on the hedge funds investment practices in the US residential real estate market, the impact of such purchases on home prices, tenancy, and local communities, and the possible Government intervention to address such effects. Understanding the several advantages and disadvantages that hedge funds create for this sector, we aim to provide directions that may effectively meet the potential of the sector's development while maintaining the sustainability of each American citizen.

Hedge Funds' Investment Strategy in Residential Real Estate

For the last few years, hedge funds have emerged as a significant force in the U.S. residential real estate market (Sanfelici & Halbert, 2019). Strategizing their operations in the light of voluminous financial capabilities, they have tried to optimize the returns of the real estate profits in one way or another. Some of these strategies include buying many homes instantly and exercising patience, waiting for rent money to accrue, using as much leverage as possible, and flipping houses. All of these approaches have different effects on the housing market that lead to the rising of property prices, the increase of renters' fees and the influencing of competition with other small-scale investors.

Asset Acquisition and Bulk Purchasing

Bulk buying is one of the main ways hedge funds tailor their approach to the residential sector. Hedge funds are well-known for purchasing single-family residences en masse, such as through short sales or buying HUD properties at foreclosure sales. This strategy enables them to use the low price that small investors or even consumers need help to afford. Purchasing power also allows hedge funds to make massive purchases of properties, hence giving them lots of control over the market.

An excellent case of this approach is Blackstone's division called Invitation Homes, which became one of the largest single-family house rental companies in the USA after it bought over 80 thousand houses by 2021 (Blackstone Group Annual Report, 2021). Historically, Blackstone and other hedge funds can acquire properties, including foreclosed homes or homes sold by distressed owners at cheaper prices. Some of these houses are located in these regions because other home values are likely to be appreciated, which boosts the profitability of such acquisitions. However, this strategy interferes with local real estate markets. Hedge funds buy homes in large quantities, denying local home buyers an opportunity to negotiate. This increases the housing price, forcing Ink to be the first home buyer to dig deeper into their pockets to buy a home. According to a report released by the Federal Reserve in 2021, the study carried out on various metropolitan regions showed that institutional investors held above 20 % of all homes. Such market structures exert upward pressure on the price of homes, thereby acting as a disincentive to the potential homeowner and putting a cap on those seeking to own homes for use.

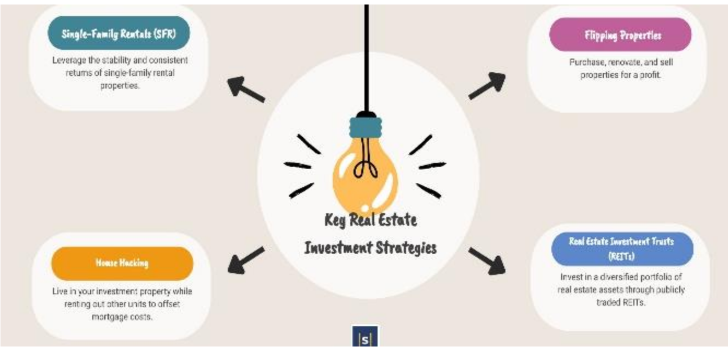

Figure 2: Real Estate Investment Strategies

Focus on Single-Family Homes and Rental Income

Over the past years, hedge funds have increased their interest in single-family residential homes, especially in the suburbs, as primary markets for long-term rental businesses (Charles, 2020). They transform these houses into rental units that give good returns and experience growth over time. For hedge funds, these properties are interesting because of the stability of the asset and demand, which can generate rent while potentially increasing capital.

Due to skyrocketing home prices, homeownership has become a distant reality for many middle-income earners, and hence, more people are seeking rental houses. Hedge funds have benefitted from this change, turning owner-occupied homes into rental properties. This has led to institutional investors owning more and more rental homes. In their research by (Ellman, 2020) institutional investors bought 20% of homes in 2021 in significant locations, including Atlanta and Charlotte, where single-family homes comprised a large portion of the portfolio.

Focusing on rental income has been most advantageous in a post-pandemic environment where home prices increased, and mortgage rates remained competitive (Sweeney, 2021). They can purchase homes for purchase leasing and any long-term gain that may be realized; hedge funds are well positioned to do just that, even as more and more individual investors lose hope of gaining entry to the market altogether. However, this has also weighed down the number of homes available on the market and limited the options available to would-be homeowners.

Figure 3: The History of Single-Family Rentals

Leverage and Securitization

Another significant practical activity characteristic of hedge funds is the application of credit financing in acquiring real estate. The Scale of the Judge significantly aids hedge funds in expanding how much they can finance in terms of properties because of the ability to borrow more than their actual shareholder's equity. While it helps to strengthen possible rewards, it raises volatility simultaneously. The borrowed money enables hedge funds to invest in many homes, thus diversifying in real estate and benefitting from every change within real estate portfolios.

Leverage is frequently used conjointly with securitization, which was earlier used in commercial real estate and has lately been used widely in residential real estate. Hedge funds securitize lease revenue from their owned properties about MBS or financial structures. These securitized rental payments are sold to investors, helping hedge funds get more funds for their investment activities. This way, hedge funds can liquidate rental income sources to acquire more properties. The low cost of capital securitization provides hedge funds with a solution to the problem of capital J.R (Lea, 1990). However, at the same time, it poses risks familiar to the global financial crisis 2008. Often, these financial instruments can have complex structures that may hide other risks depending on changes in rental markets or property values, which may lead to future instability. However, this concept of securitizing rental income has persisted, especially because hedge funds consider it an ideal way to fund their real estate growth (National Association of Realtors, 2021).

House Flipping and Renovation Projects

Besides the short-term and long-term rental approaches, hedge funds also acquire properties with the aim of reselling them as soon as possible. House flipping is when one buys more Houses at cheap or some that are in bad condition, then the next step is to fix them before selling them at a higher price. Recent findings suggest that hedge funds have emerged as key participants in house flipping activities, which increase home prices in cities where flipping is most rampant. In 2021, institutional investors invested in house flipping, and studies done by ATTOM Data Solutions revealed that this figure was 7.5 % of all houses flipped in the United States. This trend is most prevalent where the demand for accommodation is high, but the stock is restricted. This is because most hedge funds tend to have enough cash to pay more than the other investors, making it hard for small investors to compete with them in the flip of houses.

Figure 4: Example of House Flipping and Renovation Projects

Even though house flipping can make homeowners enjoy their earnings through sharp hikes in property values, the practice has demerits. Since house flipping is prevalent in the markets mentioned above, the prices of houses skyrocket, making it difficult for the locals to afford a house. Further, they elaborate on exposure to global markets, and more significantly, ordinary investors and homebuyers cannot match the efficiency and volume hedge funds create. Consequently, the role of hedge funds in house flipping has been described as a negative development that deepens the divisions of housing poverty while shrinking the size of fresh equity in the market for small players.

There are several approaches to understanding the involvement of hedge funds in US residential real estate. Asset ownership and accumulation, income generation based on rental, leveraging and securitization, and house flipping (Nethercote, 2020). These strategies have

International Journal of Sustainability and Innovation in Engineering
(IJSIE)
https://www.doi.org/10.56830/IJSIE122023

enabled them to take large shares in the housing sector, thus increasing property prices and rent charges and complicating the lease completion for minor investors. As we discuss below, hedge fund activities indirectly impacted the financial health of institutional investors and the accessibility of property ownership to consumers. As hedge funds migrate from commercial real estate into residential markets, policymakers will have to decide whether it is in the best interest of their societies to allow large institutional investors to play a dominant role in the housing market.

Impact on the Housing Market and Local Economies

Inflation of Home Prices

The impacts that emanate from the entry of hedge funds in the residential real estate market and a few of them include. Hedge funds, for instance, are renowned for out-competing ordinary buyers owing to their significant funds, which they can mainly source within short durations. This results negatively because hedge funds generally buy houses in large quantities, thus increasing the general price of homes and exerting pressure on the general market where first-time homeowners are trying to enter the market. The National Association of Realtors (2021) indicates that the number of houses sold in the U.S. recorded an upward surge of more than 16% in 2021, which is partly due to the increased demand from hedge funds and institutional investors.

This inflation is likely felt even more due to the high demand for housing in most metro cities. According to a study by the Federal Reserve, institutional investors were involved in buying over 20% of homes in several major metropolitan real estate markets. Instead of diversifying and investing in properties across areas where home values are sure to rise steadily, hedge funds escalate the rivalry for the limited number of homes and push values up even higher. For instance, in New York and San Francisco, where hedge funds are most active, house prices for middle-income earners and first-time homeowners are through the roof compared to the national trend.

Figure 5: Housing Prices and Inflation

The superior purchasing advantages hedge funds have due to their large quantities and immediate cash supply present a ripple effect for individual consumers confined to conventional loans. (Group, 2021) forecast that further competition would emerge in the subsequent years, putting those aspiring homeowners in a position where they have no option other than to remain confined to the rental trap perpetuating high demand for rental housing units. Moreover, while hedge funds remain a force that makes individual buyers pale in comparison, aspiring homeowners are left with an increasingly distant dream in already hot markets.

Rental Market Dynamics

The effect of hedge funds on the rental market is also deep-seated. Quite frequently, they use their investment strategy to take the owner-occupied single-family home and convert it into an investment rental property, a process that radically changes the nature of the rental housing space. In general, by buying homes in numbers and converting them into rental houses, hedge funds shrink the pool of homes that other people can buy. This shift puts more prospective homeowners in the rental bracket, thus increasing the demand for rental housing. The scarcity of homes for sale exerts additional pressure on home rates, and when the hedge funds buy up owner-occupied homes and turn them into rental properties, rents rise in the targeted markets.

When the availability of rentals grows, rental rates become pressured higher, especially where hedge fund-operated buildings are located. In research conducted by the Urban Institute in 2021, it was evident that rents in places that institutional investors had invaded hiked almost twofold of the additions in other regions, hence compounding tenant housing affordability problems. From experience, this rent price increase affects the population with low earnings standards, rendering them vulnerable to high costs. Furthermore, institutional landlords such as hedge funds are known to increase rents equally more often and at a higher rate than other landlords because of their business-oriented approach. The current moves by investing in real estate to gain more for their shareholders put pressure on the renters through increasing rent charges, particularly in regions with high demand. For example, in many Southern states where institutional investors increasingly invest in rent properties, rent has soared, significantly skyrocketing against wages (Tomaskovic-Devey & Lin, 2011). This phenomenon has created more burdens for the tenants, mainly because most are earning low wages, and the cost of living has risen.

Gentrification and Displacement

The actions of hedge funds in housing areas also take part in many places in the regeneration, which often forces residents who have lived for many years in their homes to leave (Shen, Yao, & Wen, 2021). When hedge funds buy distressed properties, they use the money to renovate the structures and choose locations where property values may be low but have room for growth. This investment in housing improvements often leads to the 'better-off' people moving in, causing parity between property values and rents. Though such a process may bring about regeneration to certain parts of the city, it also disowns its inhabitants, especially the first-generation Occupants of social housing, low-income earners, or people of color.

The National Low-Income Housing Coalition's recent report from 2021 pointed to the growing prominence of hedge funds and other institutional investors in the United States and how they prey on communities of colour. These communities are often selected because they are cheaper to purchase, rehabilitate, sell, or lease at significantly higher rates. Many businesspersons invest in such areas, increasing property prices and rent charges. The outcomes of such developments force original occupants to seek cheaper housing elsewhere.

Figure 6: An Overview of Gentrification

Black and Latino communities are most vulnerable to aggravation of these tendencies. Since appreciation of properties increases the value of a particular property, property taxes also increase, and there are more negative impacts on long-time inhabitants of those houses. Sometimes, people who have occupied certain homes for generations are locked out of their homes through mortgage foreclosures by large institutional buyers due to the spiraling cost of property in a developing gentrification neighborhood. Such displacement breaks apart the social fabric and increases the housing precarity of affected groups.

Impact on Small Investors

Another potential disadvantage of hedge funds in the residential real estate markets is the possible negative impact on small investors. In the past, small investors, mostly private homeowners, small businesspersons who invested in property, or real estate agents, formed small local companies investing in small-scale properties for rental. However, the ground for small-level investors changed entirely after the hedge funds and other large institutional investors got hold of the markets. Another issue is that hedge funds can buy several properties at once in large quantities and at lower prices than small investors since they sometimes buy in bulk or directly from the banks in the process of foreclosure. As this is the case, small investors are gradually being locked out of the market. A Redfin survey of first-time home buyers completed in 2021 showed that small investors acquired homes in markets characterized by high institutional investor participation in only 9% compared with 22% a decade ago.

The concentration of property ownership among a relatively small number of institutional investors reduces the likely horizons of wealth creation for small investors through real estate investment (Megginson, Lopez, & Malik, 2021). This consolidation not only narrows the market variety of housing but is also detrimental to local economies relying on multiple small to medium investors. These smaller investors are more likely to hold properties over extended periods and play constructive roles for neighborhoods than short-term institutions. Small investors also tend to invest their profits in the same community, which will hire local contractors and buy from local businesses. The money that hedge funds and other institutional investors make is usually returned to other shareholders elsewhere with minimal local multiplier effects. This increased disengagement of small investors from key housing markets means that the problem of housing affordability deepens due to the need for more competitive forces in the market.

International Journal of Sustainability and Innovation in Engineering
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The Role of Hedge Funds in the Global Residential Real Estate Market

As known from earlier literature, hedge funds, which were initially established for managing financial instruments such as equities and bonds, have started investing in the residential real estate market, unlike before, not only in the U.S. but at the global level. Recently, hedge funds have acquired properties in countries like the U.K., Canada, and others across Europe that have radically changed the housing markets. This has become a trend that has enabled positive economic stimulus while at the same time depressing areas such as housing affordability. This section examines the extension of hedge funds to global residential property markets, a contrast of investment patterns across various regions, and a synopsis of how these lead to adverse effects on housing affordability worldwide and have stirred divergent government responses.

Figure 7: The Benefits of Investing in Real Estate Hedge Funds

Expansion beyond the U.S. Market

Hedge funds have most actively and recently started investing in residential real estate markets, which was first observed but measured most vigorously in the U.S. but has since spread to all benchmark markets. Hedge funds dominate the world's foremost financial places like the U.K., Canada, Australia, and some parts of Europe. These institutional investors seek to invest in stable economies and markets that require rental demands with corresponding promising investment returns. For example, in the United Kingdom, hedge funds have been involved in purchasing houses for human occupation, particularly in London, where property prices have always been high, and the market for rental facilities is still expanding continually. In (Stephens & van Loon, 2019) view, hedge funds acting as property investors have focused on prime locations in central London, including new-build luxury flats that they let to affluent renters living in a rent-seeking state.

Regarding real estate exposure, hedge funds have followed the same path as their counterparts in the United States; they invested more mainly in countries such as Canada, especially in Toronto and Vancouver, where the housing price has skyrocketed. This activity has remained comparable to what has been experienced in the U.S., where hedge funds focused on buying single families and redesigning them to act as houses for rent. It is the same case in Canadian cities whereby hedge funds, through their financial muscle, outcompete the small home buyer, thus affecting first-time and middle-income earners (Bourassa, Hoesli, & Scognamiglio, 2020). The buying approaches have revealed that hedge funds raised considerable capital, which they use to buy many parcels of residential property, making them control the market and C.A. price the property.

Another significant distinction in the strategy among countries is the degree of securitization used: America's most striking example. For instance, rental income has been securitized in the U.S. by hedge funds, similar to mortgage-backed securities (Stephens & van Loon, 2019). On the other hand, hedge funds from Europe have been relatively cautious; they have bought assets directly rather than selling them into K.F.G.s. This is partly because of the revised and advanced financial regulations in Europe, which hinder the use of more risky financial instruments. European hedge funds also mainly focus on multifamily housing units, unlike American hedge funds, which are more inclined to use single-family homes. Nonetheless, the objective of the business in every market is consistent: to generate the highest rental income and property value appreciation. Some of the major global players include established players from the United States, like Blackstone, which has diversified its portfolio interstate and owns a significant portfolio internationally, and the United Kingdom, like Legal & General Investment Management, which is active in the build-to-rent market in the United Kingdom. The two firms have benefitted from increasing rental vacancies due to the population increase in urban areas and toughest of affording to buy a house due to high prices (Bourassa, Hoesli, & Scognamiglio, 2020).

Global Impact on Housing Affordability and Policy Responses

This bears the future of hedge fund participation in the global residential real estate market and highlights the affordability problem (Galster & Lee, 2021). This phenomenon has been observed in the UK, Canada, and Australia, mainly because scales here are already high, and hedge funds have only caused things to worsen. Local first-time buyers lose out to institutional investors because, as wealthy speculators, they can access more considerable finances to purchase property. Due to hedge funds buying massive blocks of homes and converting them to rental units, the stock of homes for purchase is reduced, discouraging affordability and pushing prices (McKee, Soaita, & Hoolachan, 2020). The inflationary trends in purchase and rental prices have heavily impacted families of middle-income and aspirant first-time homeowners who are locked out of homeownership.

Figure 8: Factors Affecting Housing Affordability

As a result of these problems, many governments have put measures that can limit the role of hedge funds and other institutional investors in the residential real estate market. For instance, in Canada, the federal government's measures to make housing affordable have included offering taxation on empty houses owned by individuals who do not reside there (Hilber, 2020). This decision aimed to reduce the tendency of foreign institutional investors, especially hedge funds, to purchase houses to hold them for the future and make more houses available to local home seekers. Similarly, in Australia, the government has implemented measures to limit foreigners from investing in specific property markets to enhance homeownership amongst citizens.

In Europe, the response has been more significant control of rents and stronger protections for tenants. Germany and the Netherlands have had a history of rigorous rent control laws. The measures have been tightened further due to increased invasion by institutional investors such as hedge funds. As suggested by (Hilber, 2020), these measures have succeeded in protecting Lifetime tenant Lease rents for lasting tenants but have, at the same time, disincentivized new supply into the rent market, creating a Rental Housing deficit in particular regions. There have been controversies in the U.K. local governments over introducing similar rent controls. However, the national government has been against the measures, saying that rent controls will hamper investment and development in the rental housing market.

Cross-country comparisons of similar hedged funds also show sharply contrasting consequences of hedge fund operations in different global markets. For instance, hedge fund capital has caused extensive gentrification in some parts of London, where long-term residents have been evicted, and housing inequality has become a primary concern, as (McKee, Soaita, & Hoolachan, 2020) noted. However, the effects of rent control have never been as extreme as in Germany, where the strengthening of rent control has led critics to claim that the German housing market is becoming less vibrant, with fewer new buildings and fewer chances for people to own homes (Stephens & van Loon, 2019). However, there have also been positive impacts due to investments made by hedge funds in residential real estate, particularly regarding the economy. Property owners have developed new rental units, and through renovating old properties, many people have been employed, businesses have been boosted, lifetimes have been touched positively, and local economies have been reinforced. However, at times, hedge funds have also entered into joint ventures with local authorities to invest in social housing schemes, and thereby, they are, to some extent, responsible for avoiding all the ill effects of operating in the housing market (Akash, 2018).

The global residential property market has been increasing in investors, with hedge funds being the most influential affecting housing accessibility and affordability. Their participation has improved the stability of funds and economic returns to specific communities and caused a worsening of housing accessibility in other regions. Leading governments are putting in place policies that are meant to reign in these institutional investors while at the same time increasing investment into housing to ensure affordable houses are developed for the residents. The stakes, mechanisms, and global dynamics of hedge fund participation in real estate are well captured in this paper since these tools are crucial to policymakers and other stakeholders as they tread these waters.

Government Regulation and Policy Recommendations

The entry of these hedge funds into the US residential real estate market has triggered demands for its regulation (Ulmann, 2021). Due to their significant capital, these organizations compete with other investors and force up the prices of homes. This has generated concerns about the cost and availability of housing, long-time occupant pressure, and rental progression.

Increasing Transparency and Reporting Requirements

Since hedge funds are only sometimes transparent on issues related to property acquisition, it becomes challenging to regulate them in the residential real estate market. This is because numerous hedge funds provide their investments through various subsidiaries. Thus, it needs to be clarified to determine the amount they hold or their impact on the market. In response to this problem, better reporting procedures are a solution that provides the solution for the issue. Today, hedge funds can buy hundreds of thousands of properties while keeping essential information about their activities private. Policymakers may introduce higher reporting and realization standards that provide information regarding institutional investors' activities, real estate purchases, and ownership behavior. It may entail having a hedge fund central register to which hedge funds disclose any acquisition of one to four dwelling units or any investment in rental properties above a specific limit. More such regulations will also track the extent of institutional investment in local housing markets, thereby giving an improved perception of the areas of hedge fund operating and their ripple effect on housing prices and rents.

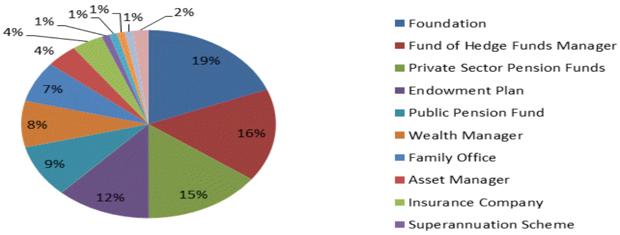

Figure 9: Aspects of maintaining Transparency in Hedge Funds

Their reporting requirements could be modeled on the securities market, where institutional investors regularly report their assets to regulatory authorities. The measures introduced for real estate could similarly increase knowledge of hedge fund activities among the general public and policymakers so that more accurate decisions can be made regarding hedging fund influence on the housing market (Blackstone Group Annual Report, 2021).

Limiting Bulk Purchases of Single-Family Homes

Some of the most straightforward restraints that can be enforced to reduce hedge fund participation in house buying are restrictions on the acquisition of large quantities of single-family homes. The investments made by hedge funds in the properties outweigh the possibilities of individual homebuyers and small investors. This impacts raising the price of homes and equally limiting the chances of first-time homeowners.

To mitigate this, the governments could limit the number of houses institutional investors can acquire within specific regions or periods. This would give a level playing ground to the small-scale buyers and local investors in the supply of housing units. For instance, regulation might prohibit hedge funds from acquiring more than a certain percentage of homes within a given neighborhood in one year. Policies enacted under such provisions would challenge the concentration of homeownership among a few entities that could otherwise dominate affairs within given residential sectors, hence fostering diverse property ownership among assorted groups.

Speculative restrictions may include financial penalties or higher taxes on house buying in large quantities for housing concentration by institutional buyers. By raising the price of obtaining vast houses, governments can persuade hedge funds to spread their holdings and shift their emphasis away from residential real estate. In the context of states and counties with the most minor housing stock, such regulations could contribute to ensuring that many remain affordable for owners and residents rather than being purchased en masse by investors.

Rent Control and Tenant Protection

As hedge funds gain the ability to acquire owner-occupied homes and turn them into rental properties increasingly, they have a significant quantity of control over renters' markets. In most areas, institutions have been blamed for increasing rent costs, thus locking tenants out of the housing market. Affordable housing, which can only be realized through rent control is a significant solution to this problemichel housing and which can only be realized through rent control is a significant solution to this problem. Rent control measures, which regulate the degree to which landlords can increase the rent charges, help protect tenants from outrageous rent increases instigated by hedge funds. To protect the renters from exponential rises in rent wherever there is a high demand for space owned by institutions, local governments could put in place some rent control to ensure that where rent is to be raised, it is done in a manner that is fair to the renters. They would stop hedge fund landlords from determining a rent increase due to elevated market needs and assist in maintaining housing accessibility (Zillow Group, 2021).

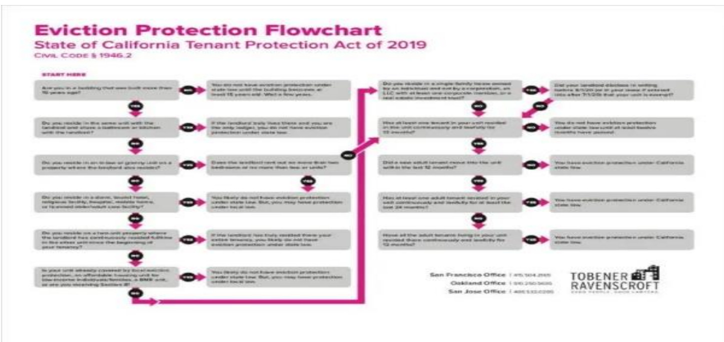

Figure 10: An Overview of Rent Control in California

Besides rent regulation, tenants must have more substantial legal rights that will bar hedge funds from ejecting residents without grounds or from enjoying some ambiguities in local ordinances. For example, governments could legislate and enforce long-term rental agreements in which the rent increase is well defined. These policies would provide renters far more stability and security than they currently enjoy, thus minimizing the risk of skyward rent increases or unfair eviction. Tenant protection is especially calling for in regions of concentrated hedge fund influence and the possibility of weeding out low-income earners to make houses more affordable to the well-endowed (National Low-Income Housing Coalition, 2021).

Promoting Affordable Housing Development

Governments should encourage institutional investors to invest in affordable housing projects to replace the increase in affordable housing provision that results from hedge fund activity. Given that hedge funds have a large amount of capital under management, they can initiate investment in affordable housing to create homes for the deserving and needy population across various locations.

Offering tax credits or subsidies in hedge funds that end up in affordable housing projects may help hedge funds direct more investment in affordable housing for people experiencing poverty than profit-oriented developments. For instance, hedge funds might be awarded tax credits for constructing or redeveloping homes in affordable housing states or participating in CLT. Such measures would help guarantee that some of the funds of institutional investors are correctly used with a clear goal of enhancing the production of affordable houses (Blackstone Group Annual Report, 2021). Furthermore, the government could charter hedge funds through part of its established structure to fund affordable housing. Such partnerships would be structured with risk and returns split in a manner whereby the government offered financial incentives while the hedge funds brought in capital needed for development. It may assist in meeting housing demands while drawing on the financial buffer of highly mechanized institutional investors to benefit communities.

Anti-Displacement Initiatives

Another critical area that requires state intervention is the eviction and exclusion of long-term residents, especially those communities affected by gentrification. While hedge funds use their talents to refurbish and/or transform dilapidated properties, they contribute to skyrocketing housing prices, thus pushing out lower-income dwellers from their neighborhoods. Anti-displacement efforts are critical to the social integrity of neighborhoods and prevent occupants from being priced out of their homes. A successful way to combat displacement is by partnering with the community using a Community Land Trust, where a nonprofitable entity owns the land, but the residents are independent homeowners. This model contributes to the avoidance of land barons and makes the issue of houses cheap for lasting occupants. Now, governments could facilitate the establishment of community land trusts within areas of interest to institutional investors, thereby ensuring the community populace is kept from getting locked out by high prices due to such investors (National Low-Inincome Housing Coalition, 2021).

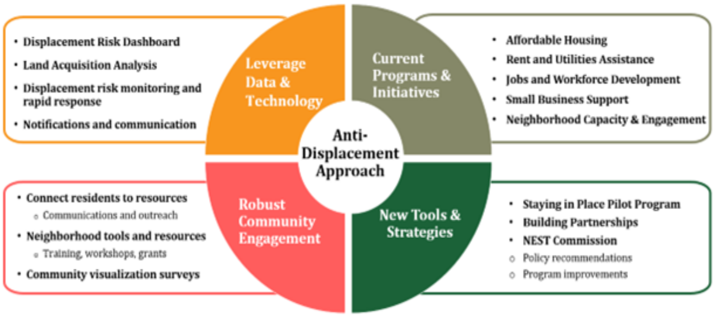

Figure 11: An Example of Anti-Displacement Initiatives

A prohibiting factor is the zoning laws that can encourage affordable housing construction. For instance, facilitative zoning practices entail developers setting apart several affordable housing units in newly planned buildings. Governments could extend such policies so that as institutional players buy and develop premises, they provide for the preservation of the affordable housing inventory within the region. Moreover, there could be tax reliefs whereby homeowners receiving high property values from hedge fund buying binges can stay in their houses despite high taxes (Urban Institute, 2021).

Balancing Positive and Negative Effects of Hedge Funds in Residential Real Estate

Positive Economic Contributions

Hedge funds have played positive roles in some local economies, especially in real estate investment, which, in most cases, creates employment opportunities and boosts the economies. One of the most significant economic advantages that can be credited to the agenda is the provision of employment within construction and renovation projects. Compared to other institutional investors, hedge funds engage mainly in rehabs, especially if they have realized properties from distressed or foreclosed homes. Consequently, local construction industries, contractors, and workers are engaged in renovating and improving such properties, promoting employment in the short run. In a research article by (Immergluck, 2018), hedging funds have been attributed to the responsibility of redeveloping large-area properties that were hit most by the housing sector blowup. This has enhanced skilled and unskilled employment opportunities in construction, boosting economic development for these areas.

An added essential and extant and continuous economic impact is the enhancement of yearly property tax collections due to improvement in the price levels in real estate. As hedge funds renovate and enhance residential units, they increase property prices within the vicinity. This increase in property values results in higher property tax revenues, meaning local governments get more money for infrastructure, public services, and schools (Fields, 2019). This is well illustrated by those neighborhoods that, before being developed by hedge funds, were characterized by little or no economic growth due to the abandonment of real estate projects. Municipalities can use additional property tax revenues to fund local services that attract more residents for community living and business operations, generating a virtuous economic cycle.

New business formation is also closely associated with increased property values and demographic changes arising from hedge fund involvement. When the improved class of tenants occupy the areas that have undergone renovation, requirements for superior quality items and services are stimulated. Stores, cafes, and other companies equipped for this new client form accommodate them, which in turn causes more economic development in the region. Another study conducted by (Fields, 2019) established that the location of hedge funds in gentrifying neighborhoods leads to the opening of economy-enriched businesses, thus, a general improvement in the local economy. The pertinent entry of these businesses thus generates employment and increases consumption, thereby providing a multiplier effect on the general benefits that hedge funds bring about.

Figure 12: The Pros and Cons of Investing in Hedge Funds

Mitigating Negative Consequences

The economic benefits of hedge funds and the social costs of their activities are well understood. Higher rent charges and housing prices follow these rising property costs, and such change affects long-time residents, especially in these neighborhoods. Housing and ground gentrification have caused forcible eviction of the affected locals, especially the African Americans and Hispanics, due to the high costs of rent after hedge fund investment. According to (Freeman & Braconi, 2004), though economic revitalization or gentrification may have positive repercussions, its side effect is the evils of social exclusion caused by rising rents pushing away people with low incomes. They become displaced regarding their community and cultural identity, which has been debated in most urban areas.

Hedge fund investment, on the one hand, has a positive effect on economic development; on the other – it can cause the decline of communities – regulation of hedge funds falls under the second category of possible solutions. Another thing is that policymakers can regulate the amount of property purchased at once in any given region to ensure that hedge funds do not corner the market in the housing sector. (Immergluck, 2018) noted that restrictions on institutional investment in single-family housing can contribute to reducing price and rent increases and protecting long-time residents from being driven out of their homes. However, governments could further regulate existing rent control, especially within the areas most influenced by hedge funds, to shield tenants from overtly charged rent hikes. This would guarantee increased provision of rental housing, which was still within the reach of a larger population.

Another way is to lessen the adverse effects of hedge fund investments with the help of partnerships with private players. There is usually a partnership where hedge funds can work with governments to fund affordable housing for low-income earners. There is nothing wrong with hedge funds investing in real estate; however, when investing more than 40% of their portfolio in residential properties, it creates an imbalance, and IGPs and the government can encourage hedge funds that invest more than 40% of their real estate in affordable housing by granting them tax incentives or subsidies. Such partnership arrangements have been effectively applied within cities, including Atlanta, where hedge funds are encouraged to invest in constructing mixed-income units to ensure that affluent appellants and low-profit earners live in similar neighborhoods. It offers benefits both ways because hedge funds make profits from their stock investments while at the same time keeping the supply of affordable units coming.

Case Studies of Hedge Fund Influence

Many states in the United States of America include several cities and regions created by hedge funds in their housing sector. For instance, Atlanta has attracted hedge fund interest in single-family home investment. Invitation Homes, a firm owned by Blackstone, a hedge fund, bought thousands of foreclosed houses in the suburbs of Atlanta after the financial crisis that hit in 2008. They were then converted to Rentals to increase rent prices and evict many long-term inhabitants (Fields, 2019). Therefore, gentrification in Atlanta took root, where superior classes occupied remodeled houses while the inferior classes were evicted to even more distant outskirts.

Figure 13: A Guidance through Hedge Funds Investment

A similar occurrence was experienced in Phoenix, Arizona, where hedge fund purchases of troubled properties badly hit the other city. Increased capital from hedge funds drove up home prices and crowded first-time investors, who were small investors in the property market. (Immergluck, 2018) notes an 18% home price growth in Phoenix between 2010 and 2015, much of which he attributed to institutional investors. High inflation rates threatened to evict middle-income populations from homeownership to rental houses invested in by hedge funds. Chicago is another case of hedge fund interference with the residential real estate business. Housing blight has been attributed to hedge funds that have focused primarily on the South and West areas of the city to buy up distressed houses and sell them at a higher price. (Freeman & Braconi, 2004) have noted that even though such investments have fostered neighborhood revitalization, the latter has been accompanied by the loss of an already scarce affordable housing stock by those with long-term residency in those areas. The lack of affordable units has further stretched housing accessibility for these populations in these neighborhoods, with minority groups most affected.

Conclusion

The hedge funds have played a vital part in the changes witnessed in the residential real estate market in the United States. This group's entry into this space has precipitated a profound and extensive social impact on housing prices, rental, and homeownership issues. Large quantities of properties, primarily single-family homes, have been bought by hedge funds, which use the buildings as investments by renting them out or as houses for flipping to make profits out of increasing property values. Maintaining this type of strategic approach may be profitable to institutional investors, but it has led to an increase in home prices and rent prices, thus locking out first-time homeowners and other middle-income earners. Through bulk buying, hedge funds exert more pressure on the already inflated home prices and shrink home stocks for purchase by other buyers. When these lots are concentrated in major metropolitan areas with a high demand for housing, this only constricts the affordability crisis. Through securitization of rental income and financial resource leveraging, hedge funds can quickly expand their portfolios significantly. However, all these maneuvers lead to higher market fluctuation and the risks seen in the 2008 financial crisis.

The effect is often not one-dimensional in that it affects the overall economy in more ways than one. On the one hand, negative hedge fund investments in the properties, notably in distressed cities, have positively impacted the local economy through property rehabilitations, employment opportunities, and raised property taxes. These activities have spearheaded new neighborhood developments besides enhancing infrastructural development. On the other hand, evacuating long-time residents, especially in gentrifying neighborhoods, stirred controversy regarding social justice and the degradation of togetherness. Minos, vulnerable people, and people of color are also particularly vulnerable to rising rents and property taxes that make them homeless.

As a result, public calls for regulation that would address some of the problems created by hedge funds' involvement in housing markets have been growing. Some recommendations are to expand the disclosure of property acquisition procedures, constrain the purchase of numerous properties with single-family homes, and control rental prices for defenseless residents. Further, incentives for institutional investors to develop affordable housing through tax credits or subsidies could also be an effective solution to mitigate the effects of hedge fund investments on affordable housing. In the future, hedge fund investors' activities concerning the residential real estate market will also change. Though they offer liquidity and catalyze the economy's progress, their impact on housing affordability should not be dismissed. Ensuring that institutions are drawn into investing in housing and ensuring that all categories of people have an opportunity to gain housing will be vital in determining the future of the U.S. housing market.

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