

A photograph of a modern, two-story single-family house with grey siding, white trim, and a dark roof. The house has a large front porch with white columns and a dark door. There are green bushes and a small tree in the front yard. A dark blue semi-transparent box is overlaid on the left side of the image, containing the title text.

Single-Family Rentals: An Asset Class Grows Up

Single-family rentals have traditionally been the province of small landlords who own a handful of properties.¹ This is changing, as there have been significant advances in the marketplace.

As Millennials enter their adult years and begin to have families, they are evolving single-family rentals to suit their needs.

Several forces are reshaping this asset class in fundamental ways. For market participants, there is greater and more efficient access to geographic regions and opportunities. From the renter's perspective, the marketplace now offers more housing options.

LAYING THE FOUNDATION

The dominance of small, local landlords resulted in a very fragmented market and usually meant that the housing stock available to rent was older and smaller. These were the traditional "starter homes" for tenants that couldn't afford to purchase a home.

One of the effects of the Global Financial Crisis was a glut of newly-built homes that were originally intended for sale to individuals. Institutional participants looking at this marketplace saw the opportunity to purchase large numbers of newer homes in cities that had demonstrated growth and had potential to continue to expand their economies.

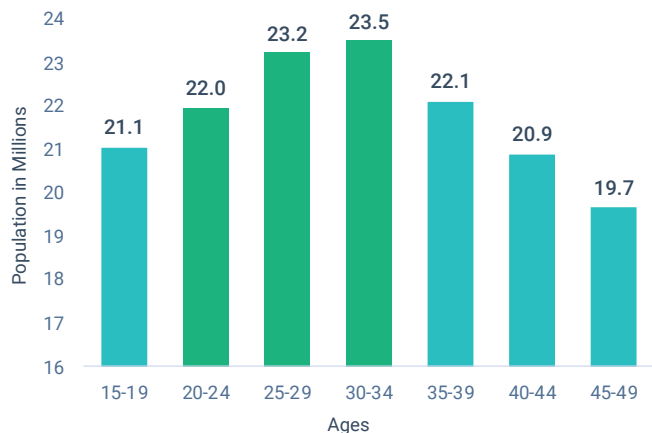
The ability to centralize operations and use new tech to price and buy properties around the country, and the rise of specialized firms that handle leasing and maintenance across several markets, made it possible for institutional participants to scale rapidly.

As the millennial generation entered late adulthood in a struggling economy, renting became normalized. The number of renter-occupied households has grown 29 percent since 2000, according to John Burns Real Estate Consulting estimates using 2019 Census data, while the number of owner-occupied homes rose just 17 percent.

THE MILLENNIAL GENERATION RENTS THEIR DREAM HOUSE

The new biggest generation has grown up. Millennials are a growing segment of the population, and they are starting families. And families need space.

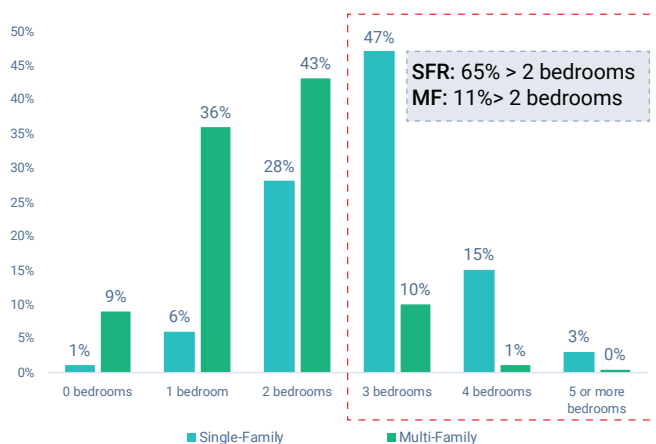
Large U.S. Age Cohort Entering Home-Formation Years



Source: U.S. Census Bureau: Population Estimates, December 2021

This generation was previously all about renting apartments in modernized swanky buildings in revitalized urban downtowns. Now they're all about extra bedrooms that can become home offices. While extra bedrooms in apartments are vanishingly rare, as the chart below shows, 65% of single-family rental homes offer three or more bedrooms.

Single-Family Rentals Offer Space for Changed Lifestyles

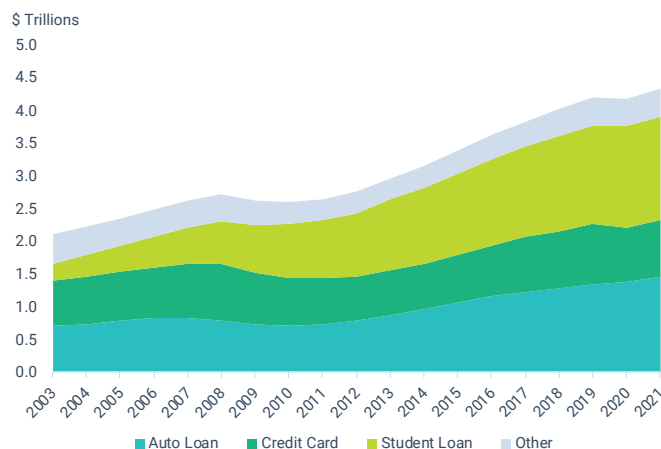


Source: John Burns Real Estate Consulting, data: 2017, pub: June 2020.

WHY ARE THEY RENTING AND NOT BUYING?

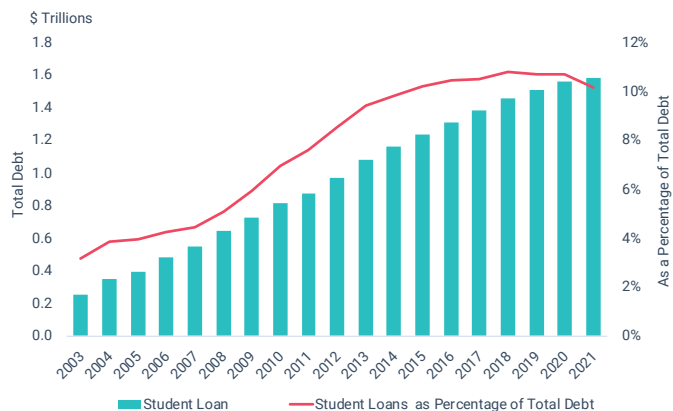
In short, because they can't afford it. While most forms of non-mortgage debt have increased, student loan debt as a percentage of total debt is expanding. For many households, this is putting homeownership out of reach.

Non-Mortgage Debt Has Increased



Source: New York Fed Consumer Credit Panel/Equifax. Data as of each year end.

Student Loan Debt Has Increased Dramatically



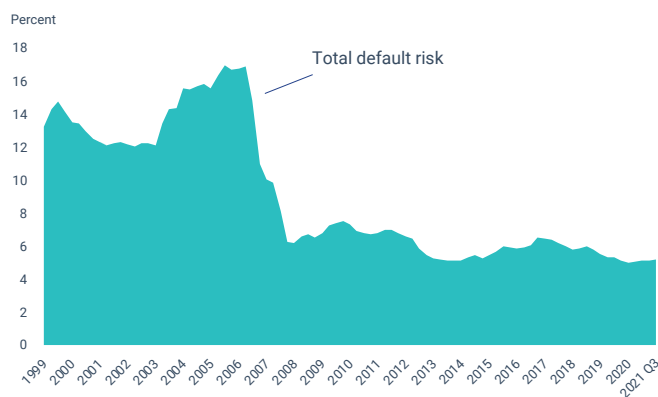
Source: New York Fed Consumer Credit Panel/Equifax. Data as of each year end.

MORTGAGE CREDIT AVAILABILITY IS AT HISTORIC LOWS

In addition, bank lending standards are historically tight, making it difficult for all but the most credit-worthy borrowers to access funding.

The Housing Finance Policy Center's credit availability index (HCAI) shows that mortgage credit availability of 5.2% in Q3 2021 is near historic lows. A lower HCAI indicates that lenders are unwilling to tolerate defaults and are imposing tighter lending standards, making it harder to get a loan.

Default Risk Taken by the Mortgage Market

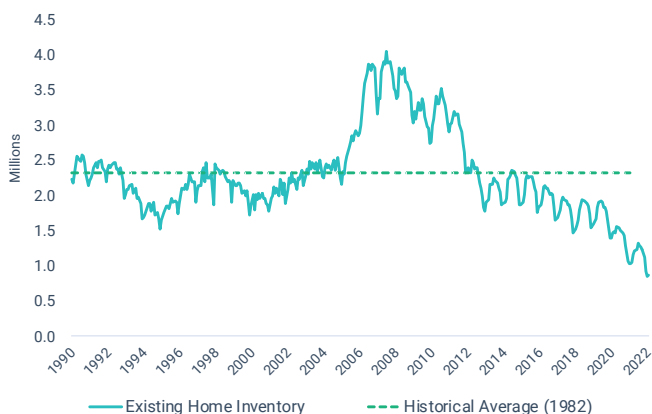


Source: eMBS, CoreLogic, HMDA, IMF and Urban Institute as of Q3 2021

HOUSING DEMAND IS OUTPACING INVENTORY

It's not just their balance sheets that are presenting the difficulty. Supply has a role to play. The decade-long underbuilding of new homes after the Global Financial Crisis has created a massive undersupply of homes.²

Housing Inventory Well Below Historical Average



Source: National Association of Realtors, as of February 2022

AN EVOLVED ASSET CLASS

The entrance of institutional participants has changed the marketplace. At the same time, millennials are increasingly looking to rent, rather than buy homes. These two forces are working in tandem to reshape the single-family rental asset class.

Footnotes

1. John Burns Real Estate Consulting, as of Q4 2019.
2. National Association of Realtors, as of May 2021; U.S. Census Bureau and John Burns Real Estate Consulting, data: July 2020, published: September 2020.

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