

Multifamily Market Commentary – December 2015

Single-Family Rental Sector Attracting Institutional Investment

Prior to the Great Recession, the cratering of single-family home prices, and declines in the homeownership rate to recent lows, much of the single-family rental sector consisted of small “mom and pop” investors. While these smaller investors still represent a large segment of the market, institutional investors have entered the fray and changed the single-family rental landscape. Why the sudden interest? In short: An imbalance between supply and demand.

More Single-Family Renters than Multifamily Renters

According to the 2014 American Community Survey, there are more than 43.2 million rental units in the U.S. The majority of these are composed of one- to four-family properties, as seen in the table to the right.

Approximately 53 percent of all renter households – about 23 million – reside in one- to four-family homes. About 18.3 million households live in a multifamily rental property with five or more units, which is about 42 percent of all renter households. The remaining 5.0 percent of renter households live in either manufactured housing rental units (about 2.0 million) or in other rental housing, such as a boat, recreational vehicle, or van (about 41,000 units).

Growth in Single-Family Rental Sector

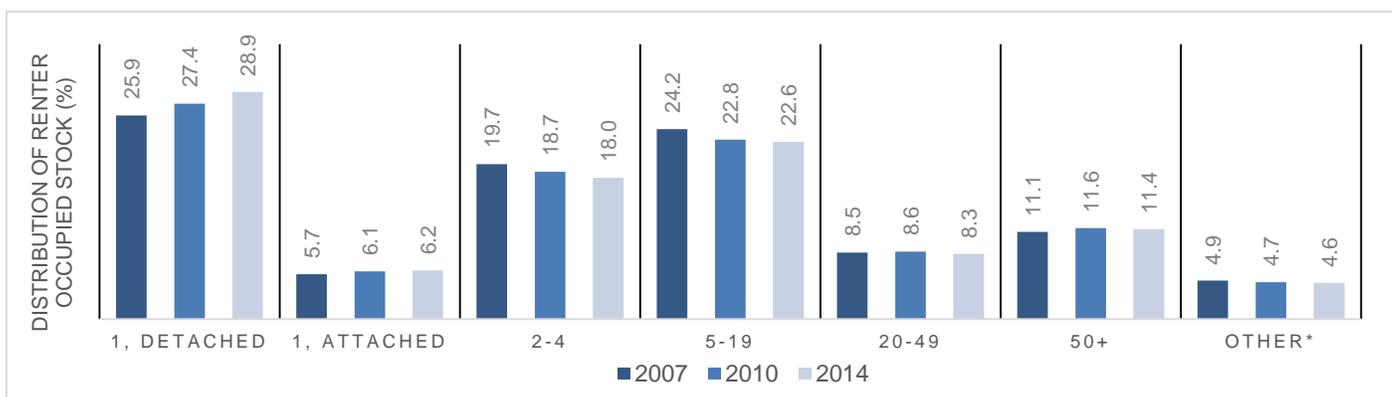
It is important to note that much of the growth in rental properties since 2005 has been in single-family detached structures, as illustrated below. Interestingly, despite the more than 1.6 million estimated new multifamily units added to the nation’s rental stock since 2007, its share of rental households has not changed much over that timeframe. Instead, the growth in rental housing can be attributed primarily to the large number of former homeowners who lost their homes to foreclosure since the beginning of the housing crisis. And that is why we have seen the sudden interest in single-family rental properties from institutional investors and the proliferation of single-family rental real estate investment trusts (REITs).

U.S. Renter Occupied Stock by Structure

Structure Type	Households (Millions)	Percent	Residents (Millions)	Percent
Single-Family	15.2	35%	47.7	43%
2 to 4 Units	7.8	18%	19.0	17%
5 or More Units	18.3	42%	37.8	34%
Mobile Homes	2.0	5%	5.6	5%
Other	0.0	0%	0.1	0%
Total	43.3	100%	110.2	100%

Source: 2014 American Community Survey

Change in U.S. Renter Occupied Stock by Structure 2007 - 2014

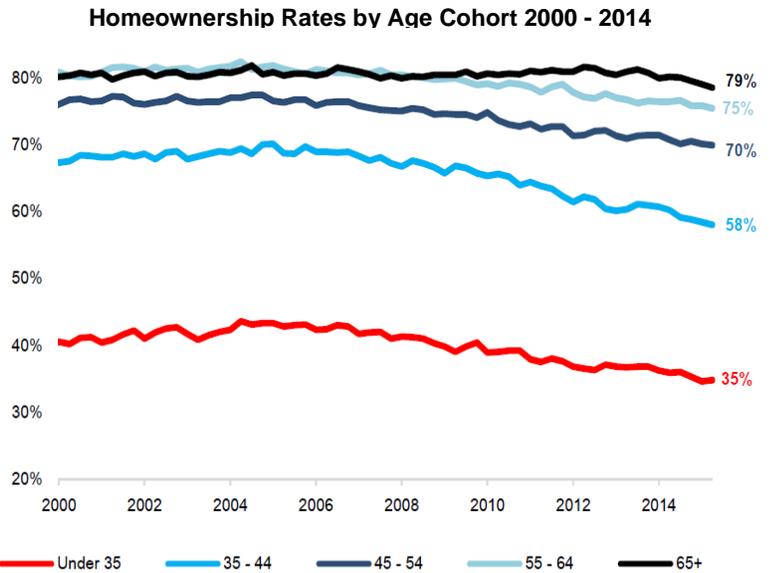


Source: 2014 American Community Survey

Note: “Other” includes manufactured homes and rare structure types such as boats, RVs, vans.

Declining Homeownership = Increasing Rentals

The decline in homeownership rates has helped boost the demand for single-family rentals, even among the younger age cohorts. As seen in the chart at the top right, although all age cohorts have seen a decline in homeownership rates since 2005, younger age groups have fallen more steeply compared to the older aged cohorts. In addition, new housing supply remains out of balance with demand, as evidenced in the second chart, below right. The disconnect between household demand, lower new single-family construction starts, and the ongoing hesitancy of younger buyers to purchase a home – due to lingering student debt, escalating home prices in many metros, or their perception of not being able to qualify for a mortgage – have all converged to pave the way for institutional investors to enter the single-family rental sector.



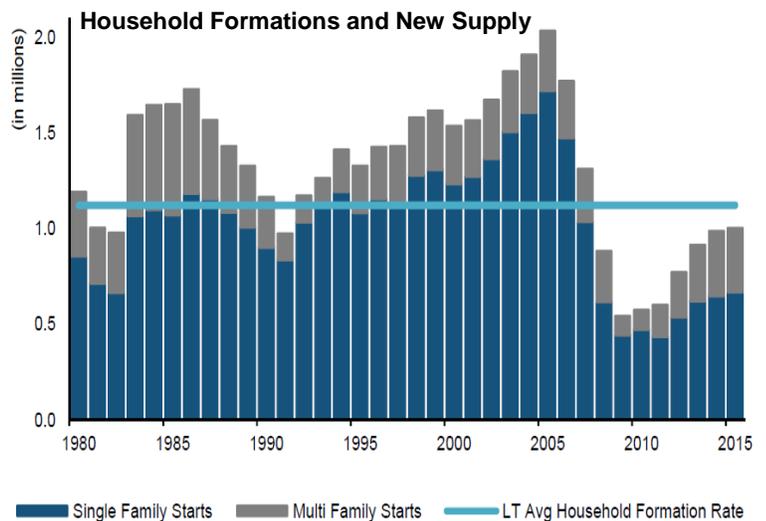
Source: Census Bureau

Bumpy Rent Growth for Single-Family Rentals

Although 52 percent of renter households reside in single-family homes compared to just 42 percent in multifamily rentals, rent growth in the single-family sector has not kept pace with the robust rent growth experienced in the multifamily sector. As seen in the chart at the bottom right, across the U.S. single-family rents for a three-bedroom home have only grown by about 5.3 percent since 2010. This has resulted in a current average rent level of about \$1,525 per month compared to \$1,495 in early 2010.

In contrast, rents for institutional investment-quality multifamily rental properties have surged by more than 16 percent over the same period. Ongoing demand for multifamily rentals has boosted multifamily rent growth on an uninterrupted basis each quarter since the first quarter of 2010. As a result, asking rents for multifamily properties climbed to an estimated \$1,156 a month as of the second quarter of 2015, compared to just \$995 as of the first quarter of 2010.

Going forward, single-family rentals are expected to produce steady rent growth. Moody's Analytics predicts that single-family rents will grow at about 3.0 percent annually over the next five years, slightly outpacing inflation. However, multifamily rent growth is expected to continue outpacing single-family rentals due primarily to anticipated demand from Millennials forming new households and preferring to rent multifamily properties.



Source: AMH, Federal Reserve Bank of St. Louis, Census Bureau

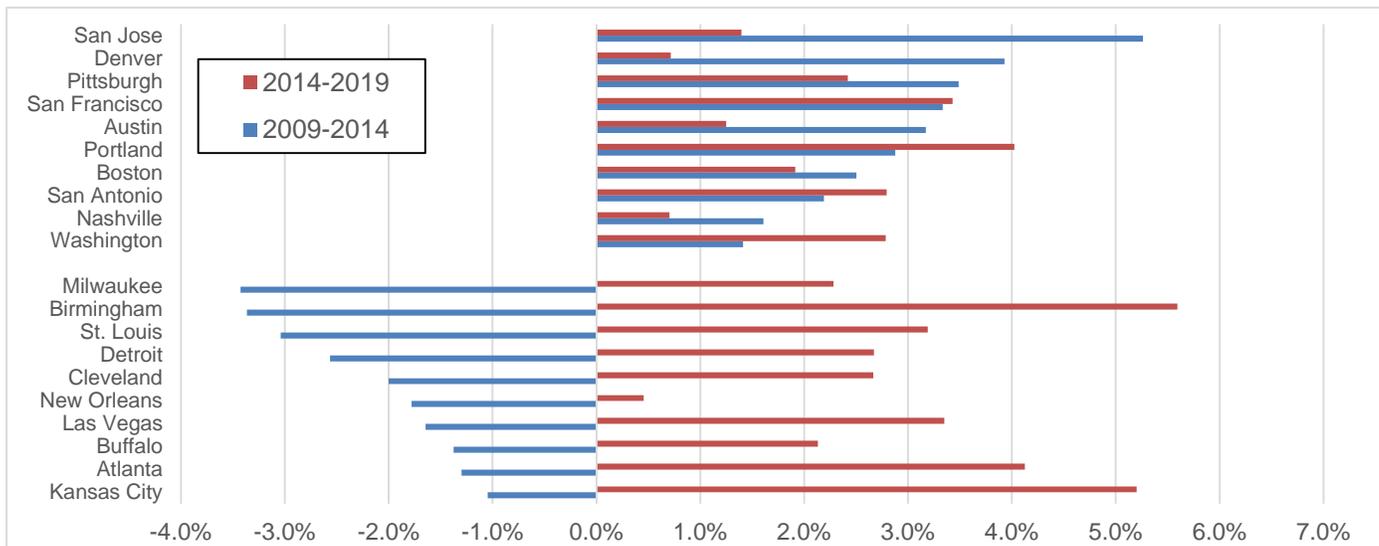


Source: Zillow

Not All Markets Are Equal

Not all metros will experience the same patterns of rent growth in single-family rentals. Indeed, a number of metros most likely have already seen their best single-family rent growth days. As seen in the chart below, Moody's Analytics predicts that San Jose, Austin, and Denver – three high-tech metros that have seen tremendous job growth over the past five years – will see a significant slowdown in rent growth. But other metros are expected to see improved rent growth over the next five years, including Atlanta, Las Vegas, and St. Louis.

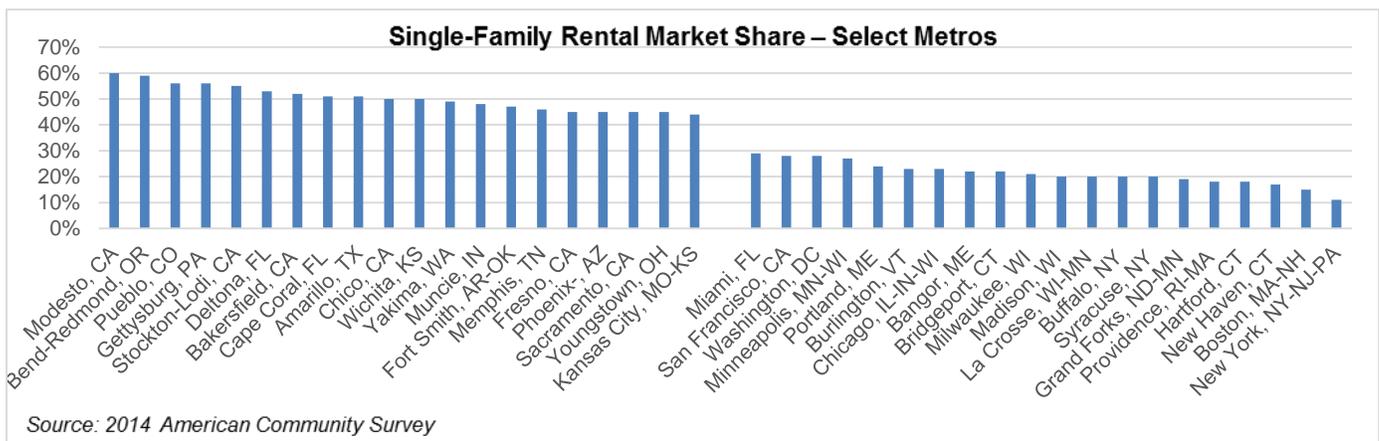
Single-Family Rental Growth Rate – Select Metros - Historical and Forecast



Source: Moody's Analytics, June 2015

Location, Location, Location

Although there has been an increase in the percentage of single-family renters, it is not evenly distributed across the country. As seen in the chart below, there tend to be concentrations in certain regions. For example, there is a larger percentage of single-family renters in states such as California, Nevada, Arizona, and Georgia – all states that saw big declines in single-family housing prices and large numbers of foreclosures during the recent housing bust. In comparison, there are fewer single-family renter households in the Northeast and even the Midwest. For example, in the New York metro area, single-family renters account for just 11 percent of all renters, closely followed by Boston, at about 15 percent.

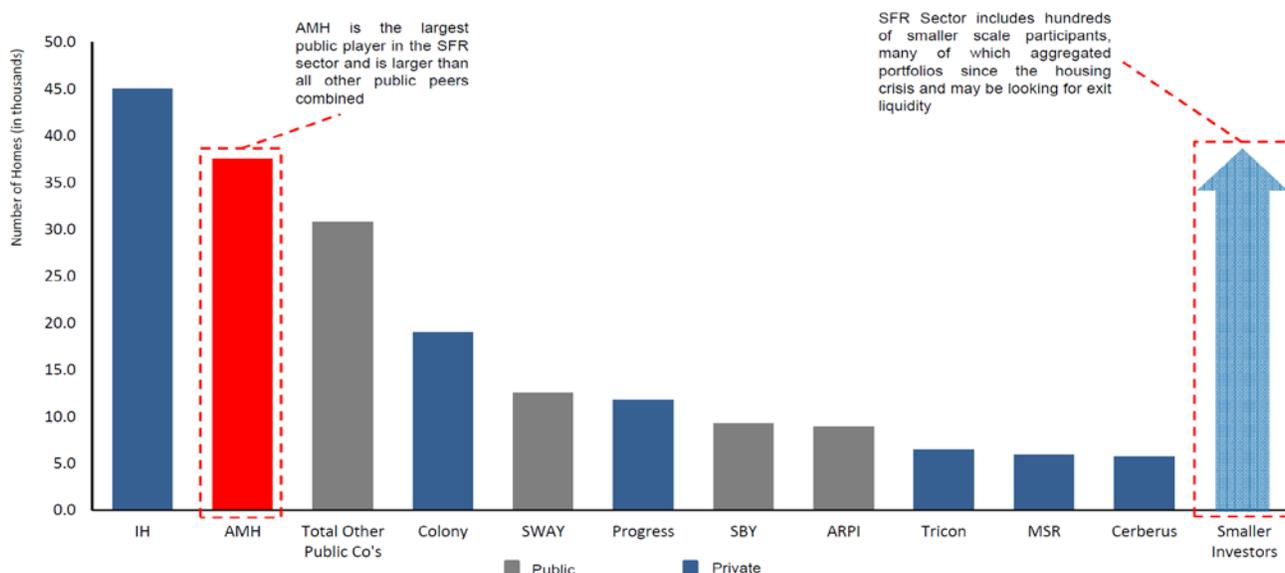


Source: 2014 American Community Survey

Mom and Pop Rule the Single-Family Roost

Although there are nearly 15 million single-family rental homes in the U.S., only about 1.0 percent are owned by institutional investors. That said, there are a number of institutional investors, both public and private, involved in the single-family rental sector, as seen in the chart and table below. Privately held Invitation Homes, a unit of The Blackstone Group LP, is far and away the largest player, having a portfolio of \$9.0 billion representing 45,000 single-family rental properties. The next largest firm, California-based American Homes 4 Rent, is the largest of the public firms, with a \$7.0 billion portfolio representing about 37,000 properties. And now that Colony American Homes and Starwood Waypoint (SWAY) have announced a merger, their combined portfolio will total about \$7.7 billion, representing 30,000 properties.

Major Institutional Investors in Single-Family Rentals



Source: American Homes 4 Rent, September 2015

Outlook Stable for Single-Family Rentals

The single-family rental sector has benefitted from the convergence of solid underlying fundamentals over the past few years. On the supply side, due to rising foreclosures, the housing bust produced cheap inventory for institutional investors to purchase. On the demand side, slow but steady job growth helped increase household formations in the rental segment, including demand for single-family housing from homeowners displaced by foreclosed, who are less likely to rent apartments.

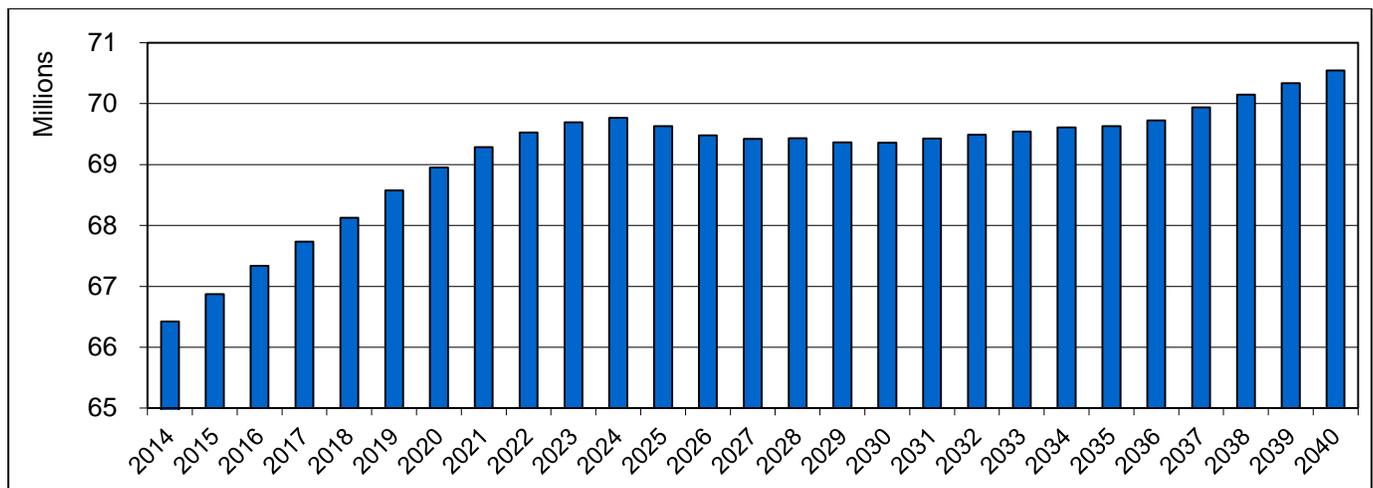
In addition, the rise of institutional investors in this segment of the rental housing market has likely helped produce better-quality and better-managed single-family homes, which in turn has made these properties more attractive for many of these displaced homeowners, as well as other renters. As Moody's Analytics stated, institutional investors helped "professionalize the industry." All these factors are expected to continue contributing to demand for single-family rental homes.

Location and Millennials Impact Outlook

The level of demand for single-family rental homes is expected to differ depending upon the region of the country. Extrapolating based upon current housing rental trends, there is likely to be more demand in the western and southern regions of the country and less in the northeastern and Midwestern regions.

Longer-term future demand for single-family rental housing hinges upon the Millennials. As seen in the chart below, the 20- to 34-year-old cohort, which makes up the bulk of today's Millennials, is expected to continue increasing over the next decade or so. Then, even after a slight dip, this age cohort is expected to start picking up steam, reaching nearly 71 million people by 2040.

U.S. Population: Age 20-34 Cohort



Source: U.S. Census

Enough Housing Demand to Go Around

The Millennials have become the nation's largest demographic cohort. Like the Baby Boomer population, the sheer size of the Millennials makes them a force to be reckoned with. Whatever they decide to do about their housing needs in the future will become a big determinant in the success of the single-family rental sector. However, given the burgeoning cohort of younger people over the long term, there should be ongoing, solid housing demand – for all types of rental and owned housing.

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