

Single Family Rental: Demographic, Structural and Financial Forces Driving the New Business Model

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Demographic, Structural and Financial Forces Driving the Single Family Rental Business Model

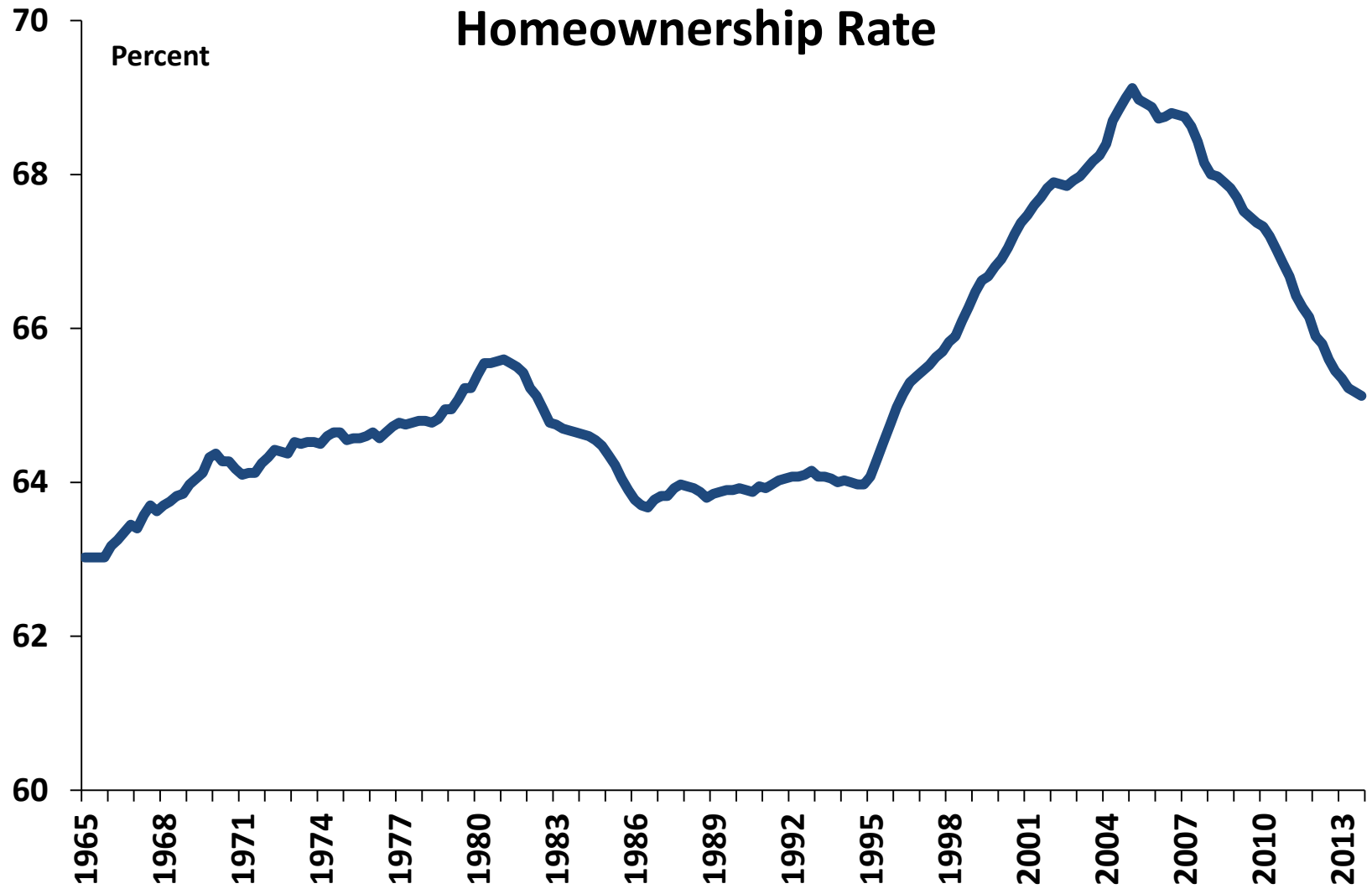
The homeownership fell sharply during and following the financial crisis. The transition to a lower rate of homeownership generated large flows of households from owner-occupied into rental properties.

Many of these households chose to rent single family properties, both because of the characteristics of single family versus multifamily property, but also because the vacant stock of multifamily units in many metro areas was not sufficient to accommodate these flows.

The transition of the housing stock from ownership to rental is not frictionless, however, and requires both capital to purchase homes for rental, and management expertise to operate the rentals. Institutional investors, including several REITs, bought homes for rental in many MSAs where the flows were large relative to the pool of potential local investors.

Housing stress (measured by average household size or incidence of shared or “doubled up” households) rose during the crisis, especially in the MSAs with large housing tenure transitions. Institutional investors made significant investments in these MSAs, which increased the availability of suitable rental properties. Had they not provided capital and management teams, housing stress may have been even worse in these markets.

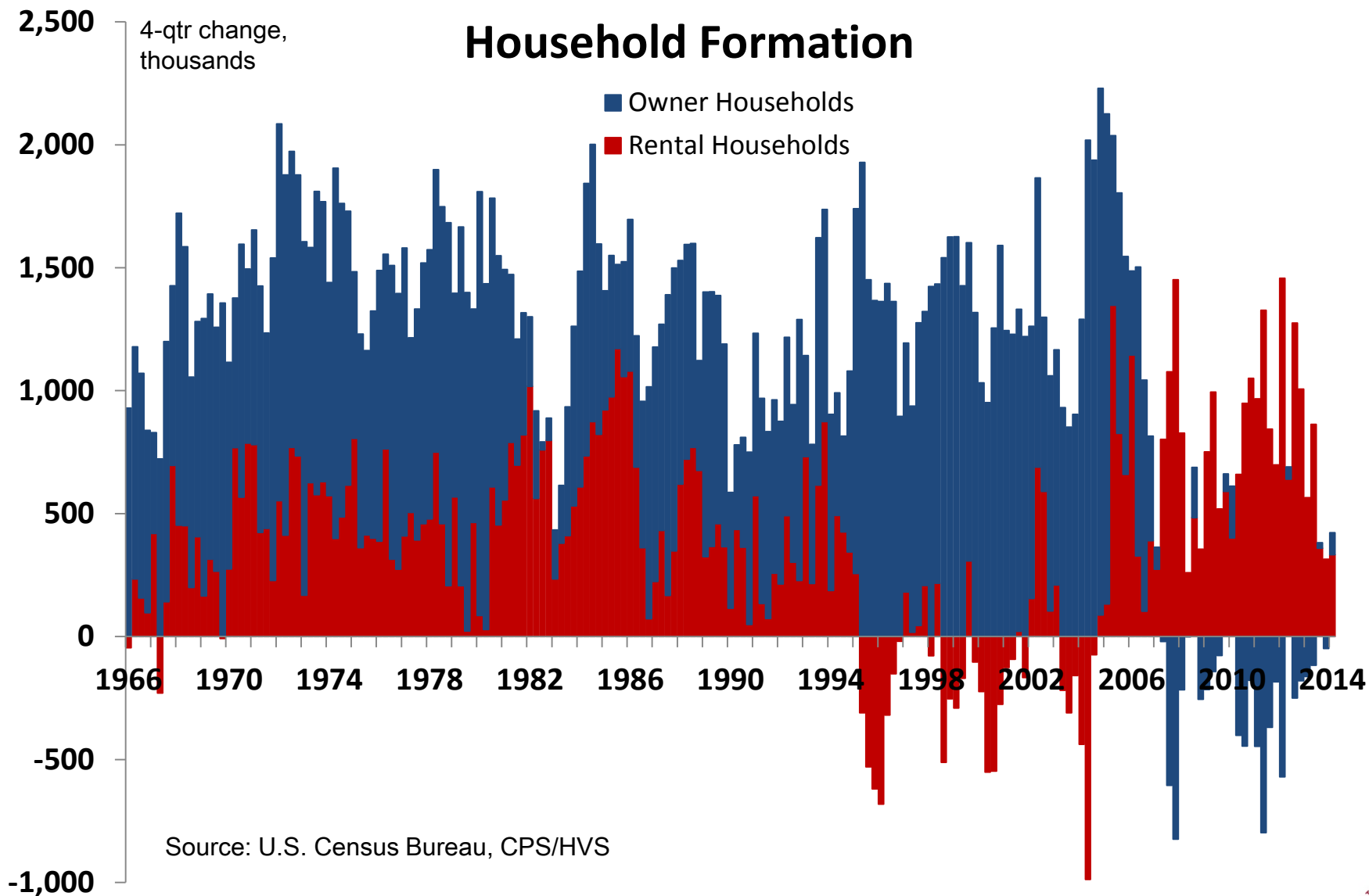
The housing crisis sparked a transition from high home ownership to greater reliance on rental housing



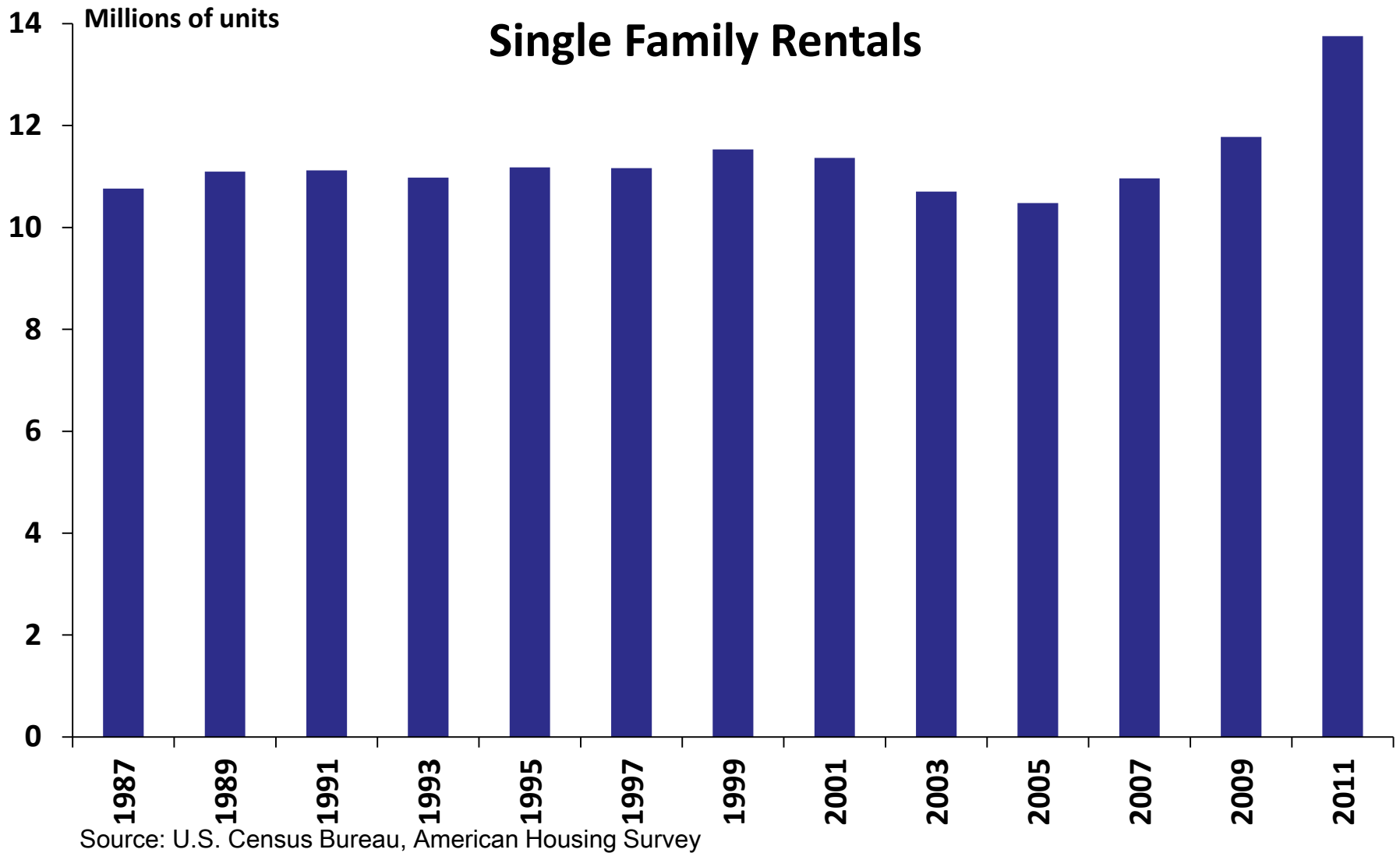
Source: U.S. Census Bureau, CPS/HVS.



Owner-occupied households have fallen more than 2 million since their peak in 2006... while rental households rose nearly 6 million



Single family rentals had been relatively stable prior to the crisis



The number of single family rentals rose nearly 2 million

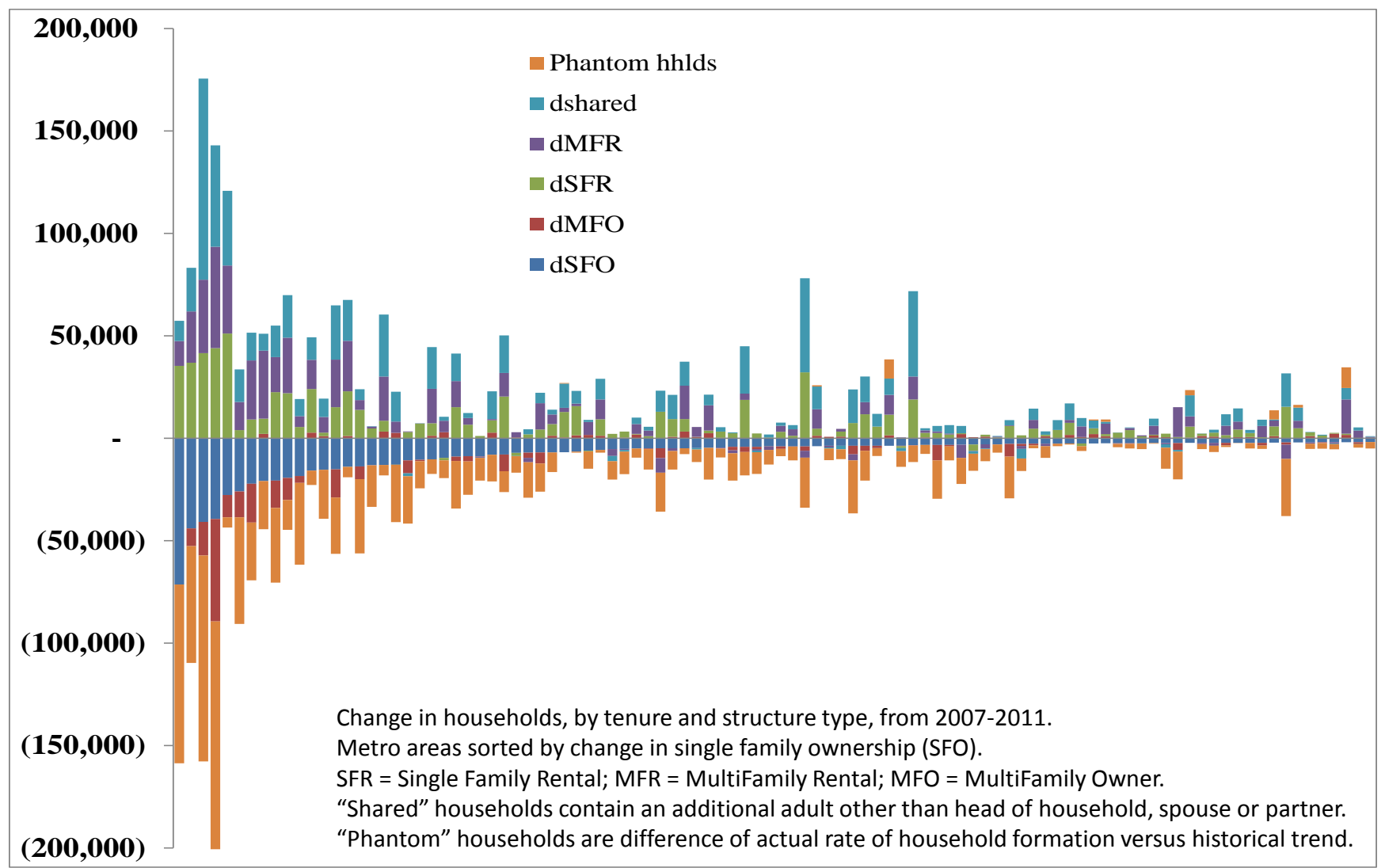
Quadrant (in millions)

	2007	
	Owned	Rented
SF	66.76	11.34
MF	8.75	25.53
2008		
	Owned	Rented
SF	66.68	11.85
MF	8.66	25.90
2009		
	Owned	Rented
SF	66.28	12.37
MF	8.65	26.31
2010		
	Owned	Rented
SF	66.49	12.69
MF	8.46	26.93
2011		
	Owned	Rented
SF	66.05	13.18
MF	8.33	27.43

	Change vs 2007:	
	Owned	Rented
SF	-0.07	0.51
MF	-0.10	0.38
2009		
	Owned	Rented
SF	-0.48	1.03
MF	-0.10	0.79
2010		
	Owned	Rented
SF	-0.27	1.35
MF	-0.30	1.41
2011		
	Owned	Rented
SF	-0.71	1.84
MF	-0.43	1.91

Source: U.S. Census Bureau, American Community Survey, PUMS.

Growth in Single Family Rentals is concentrated in a few metro areas-- as is the change in ownership, shared and "phantom" households



Source: U.S. Census Bureau, American Community Survey PUMS



Where are the unusual changes in household patterns?

The usual suspects.

Rank by Change in SFO	Metro Area	Level Change in SFO (‘000)	Level Change in SFR (‘000)	Level Change in MFO (‘000)	Level Change in MFR (‘000)	Level Change in Shared (‘000)	Level Change in Phantom (‘000)
1	Detroit, MI	-71	35	0	12	10	87
2	Atlanta, GA	-44	37	-9	25	21	57
3	Los Angeles-Long Beach,	-41	42	-16	36	98	101
4	Chicago-Gary-Lake, IL	-39	44	-50	50	49	112
5	Phoenix, AZ	-28	51	-11	33	36	5
6	Miami-Hialeah, FL	-26	4	-13	14	16	52
7	Fort Lauderdale-Hollywo	-22	9	-19	29	14	28
8	Minneapolis-St. Paul, MN	-21	7	2	33	8	24
9	Tampa-St. Petersburg-Ck	-21	23	-13	17	15	37
10	Oakland, CA	-19	22	-11	27	21	15
11	Orlando, FL	-18	5	-3	5	8	40
12	Portland-Vancouver, OR	-16	21	3	14	11	7
13	Jacksonville, FL	-15	2	1	8	9	24
14	Orange County, CA	-15	15	-14	23	26	28
15	Seattle-Everett, WA	-14	22	1	25	20	5
16	Pittsburgh-Beaver Valley,	-14	14	-6	5	5	36
17	Birmingham, AL	-13	5	0	1	0	20
18	San Jose, CA	-13	5	3	22	30	5
19	Norfolk-VA Beach-Newp	-13	0	3	6	15	28
20	Fort Myers-Cape Coral, I	-11	3	-6	0	-1	23

Source: U.S. Census Bureau, *American Community Survey*

These flows of households from owners to renters also require changes to the housing stock

More than 3.5 million housing units (SF plus MF) were converted from owner-occupied to rental.

The capital required to purchase 3.5 million homes and condos to convert to rental use totals roughly \$500 billion.

Local investors purchased most of the homes that became single family rentals. In metro areas with particularly large transitions of the housing stock, however, the local investor base may not have had the capital resources required. In addition, most investors own five or fewer properties (in most cases, just one or two); many may not have had the time or resources to manage a much larger portfolio of rental homes.

Institutional investors made most of their acquisitions in the metro areas that had the greatest transition out of single-family ownership. Their rental conversions accounted for 25 percent to 40 percent or more of the increase in single family rentals in many of this metro areas.

Institutional investors have also been active in metro areas where single family ownership continued to rise, but many households are unwilling or unable to purchase due to their financial position and tight lending standards.

MSAs with large declines in SFO (col.1) had institutional investor purchases (col. 3), which are a large share of the rise in SFR (col. 5)

	(1)	(2)	(3)	(4)	(5)
	Change in Single-Family Homeowners, 2007-2011	Change in Single-Family Homeowners as percent of estimated Multifamily Vacancies (Percent)	Institutional Investor Purchases of Single-Family Rental Homes (Thousands)	Institutional SFR as a percent of Change in Single-Family Homeowners (Percent)	Change in total Single Family Rental Homes (Percent)
National	-709	11	200	28	16
MSAs with large decline in SFO					
Phoenix, AZ	-29	97	19	66	48
Indianapolis, IN	-12	41	13	102	11
Atlanta, GA	-55	114	18	33	41
Chicago-Gary-Lake, IL	-45	47	11	24	36
Tampa-St. Petersburg	-37	96	7	19	28
Nashville, TN	-9	87	6	66	26
Jacksonville, FL	-9	166	6	59	-2
Cincinnati OH/KY/IN	-11	54	6	56	22
Miami-Hialeah, FL	-17	100	5	30	14
Las Vegas, NV	-17	41	2	12	23
MSAs where SFO rose					
Dallas-Fort Worth, TX	32		17		34
Houston-Brazoria, TX	42		15		34
Charlotte-Gastonia-Roc	9		7		12
Tucson, AZ	1		1		28
Raleigh-Durham, NC	24		1		19
			ISFR in unidentified MSAs	67	

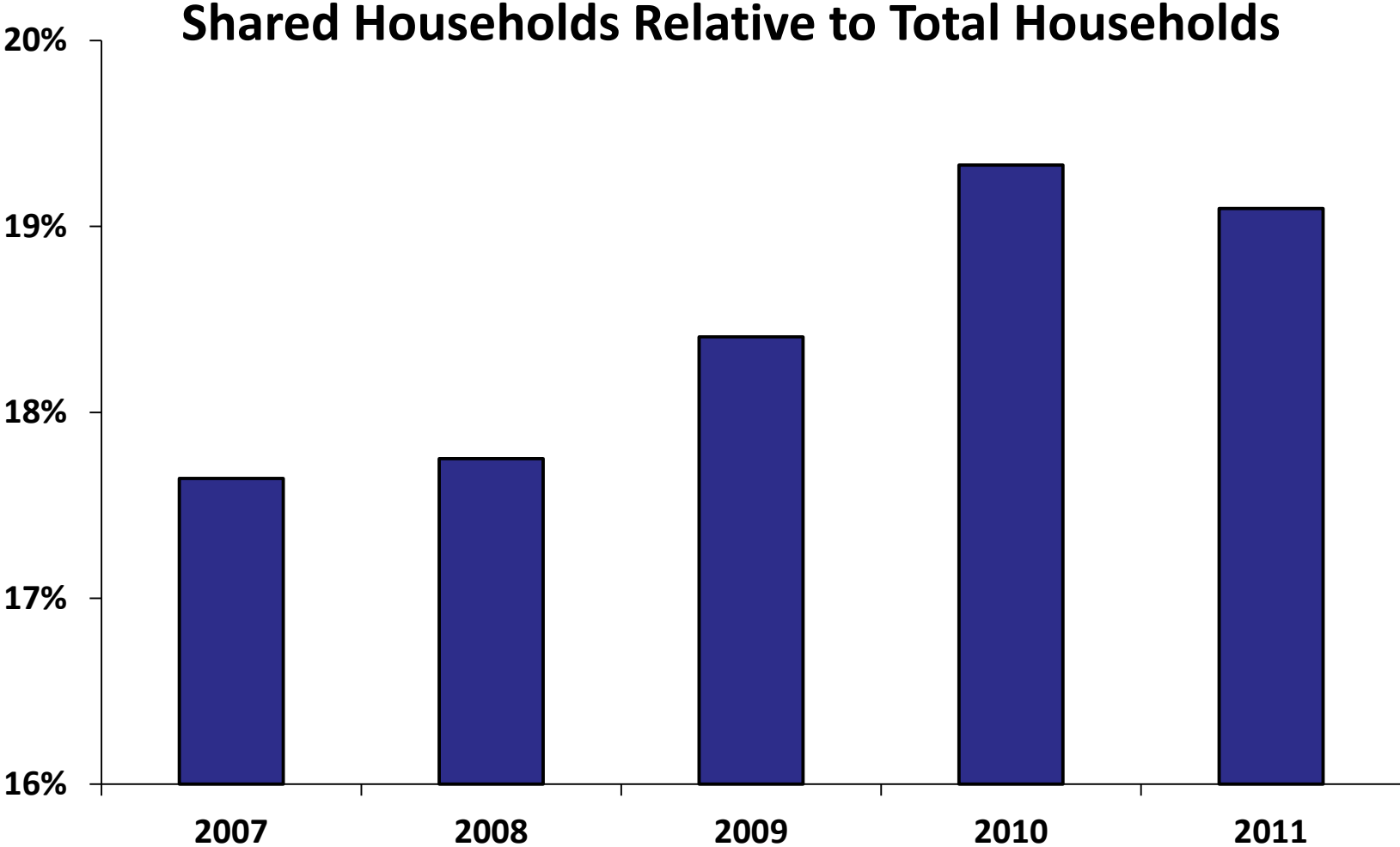
Sources: American Community Survey, Company Reports.

Housing transitions caused strains, which institutional purchases (partly) ameliorated

These housing transitions also caused strains, including shared or “doubled up” households, shared households with older adults, and an increase in the average household size. These strains were greater in MSAs with larger housing transitions. Single family rentals absorbed a disproportionate amount of the housing strain.

In the absence of institutional investors to help convert housing stock from owner occupied to rental, there would have been fewer available units (SF or MF) to rent. This would have exacerbated the increase in shared households and average household size in those metro areas.

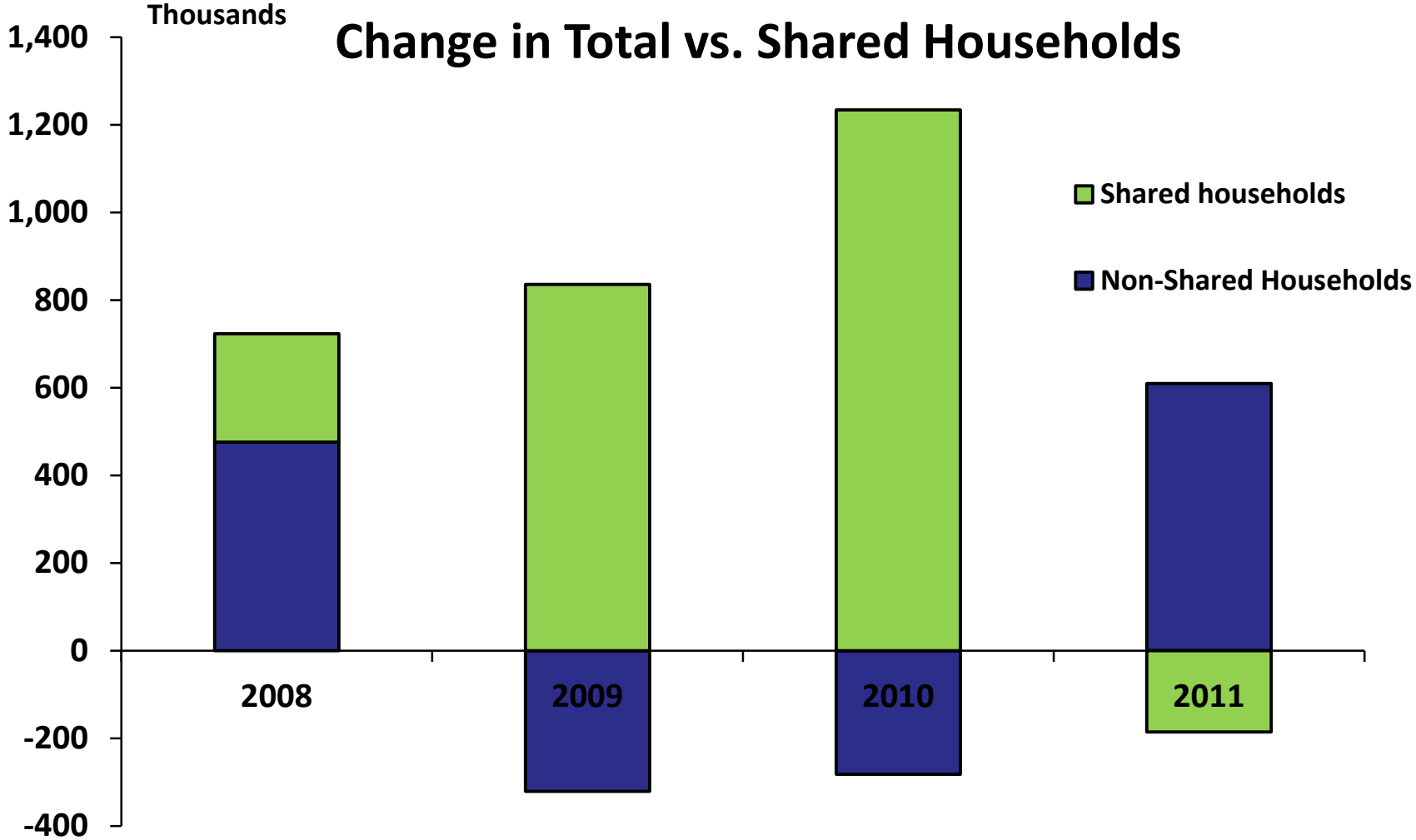
Housing strains rose during the crisis



Source: U.S. Census Bureau, American Community Survey PUMS



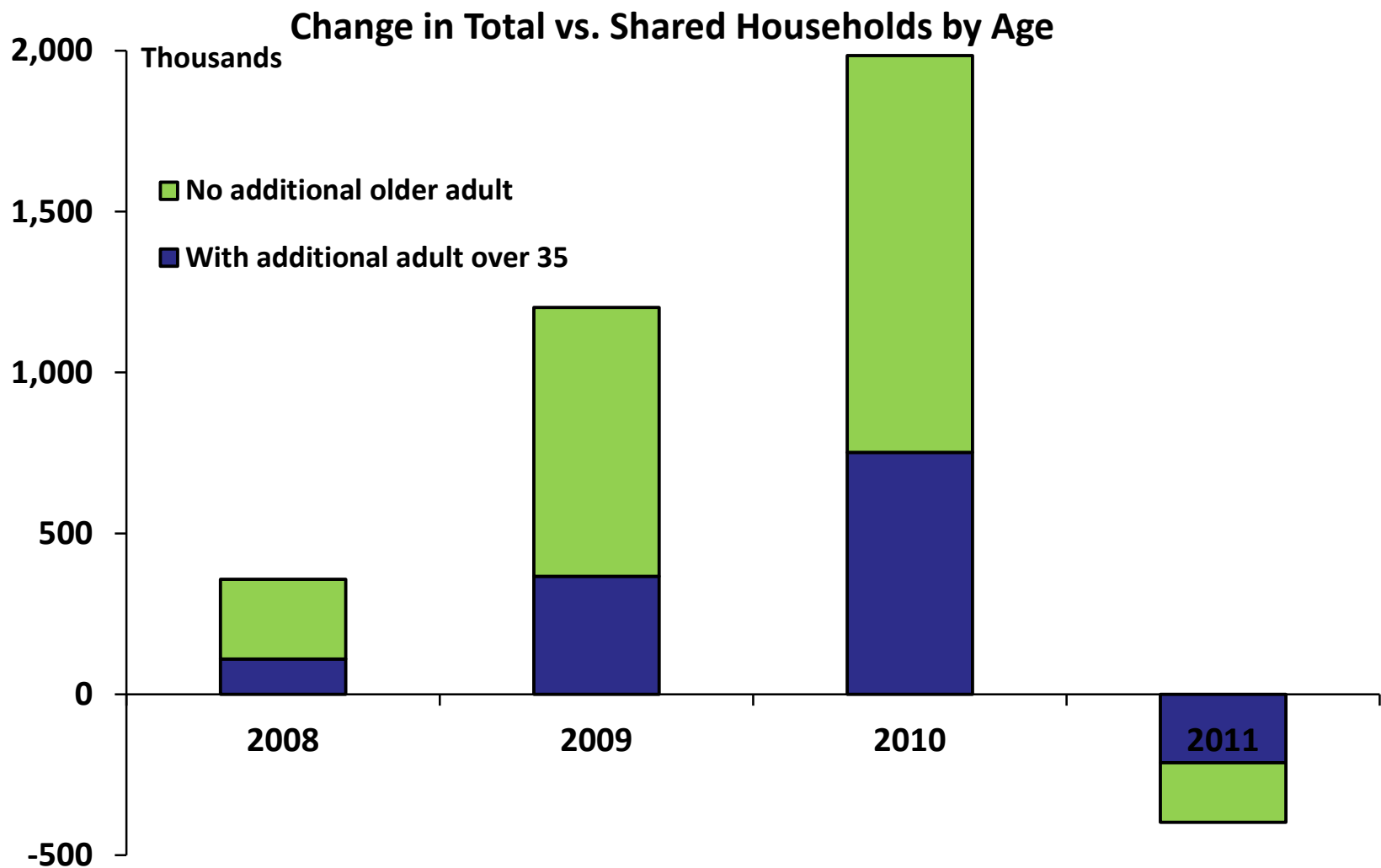
The number of non-shared households declined in 2009-10



Source: U.S. Census Bureau, American Community Survey PUMS



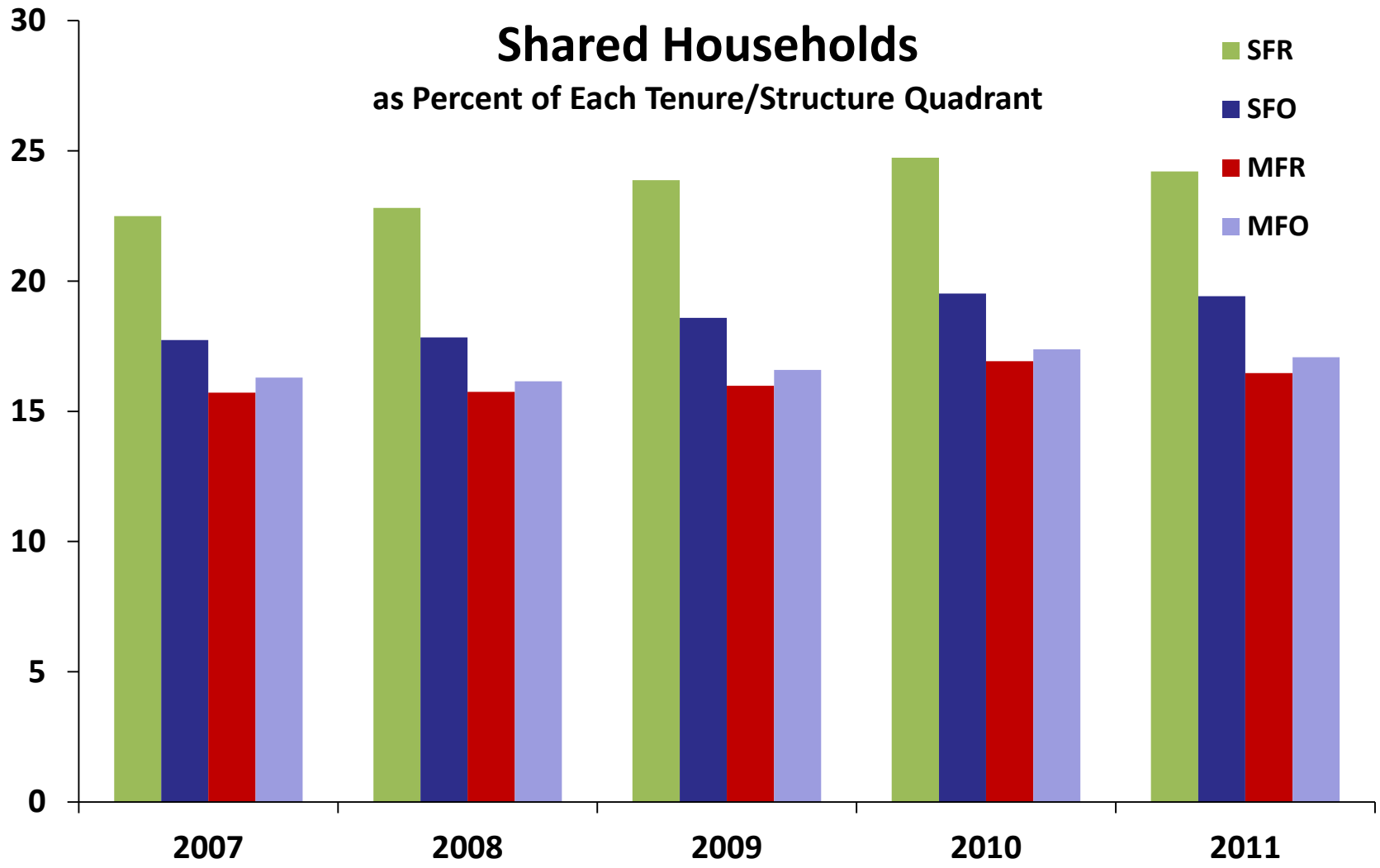
It's not just young adults moving back with the parents—many shared households have additional adults over age 35



Source: U.S. Census Bureau, American Community Survey PUMS



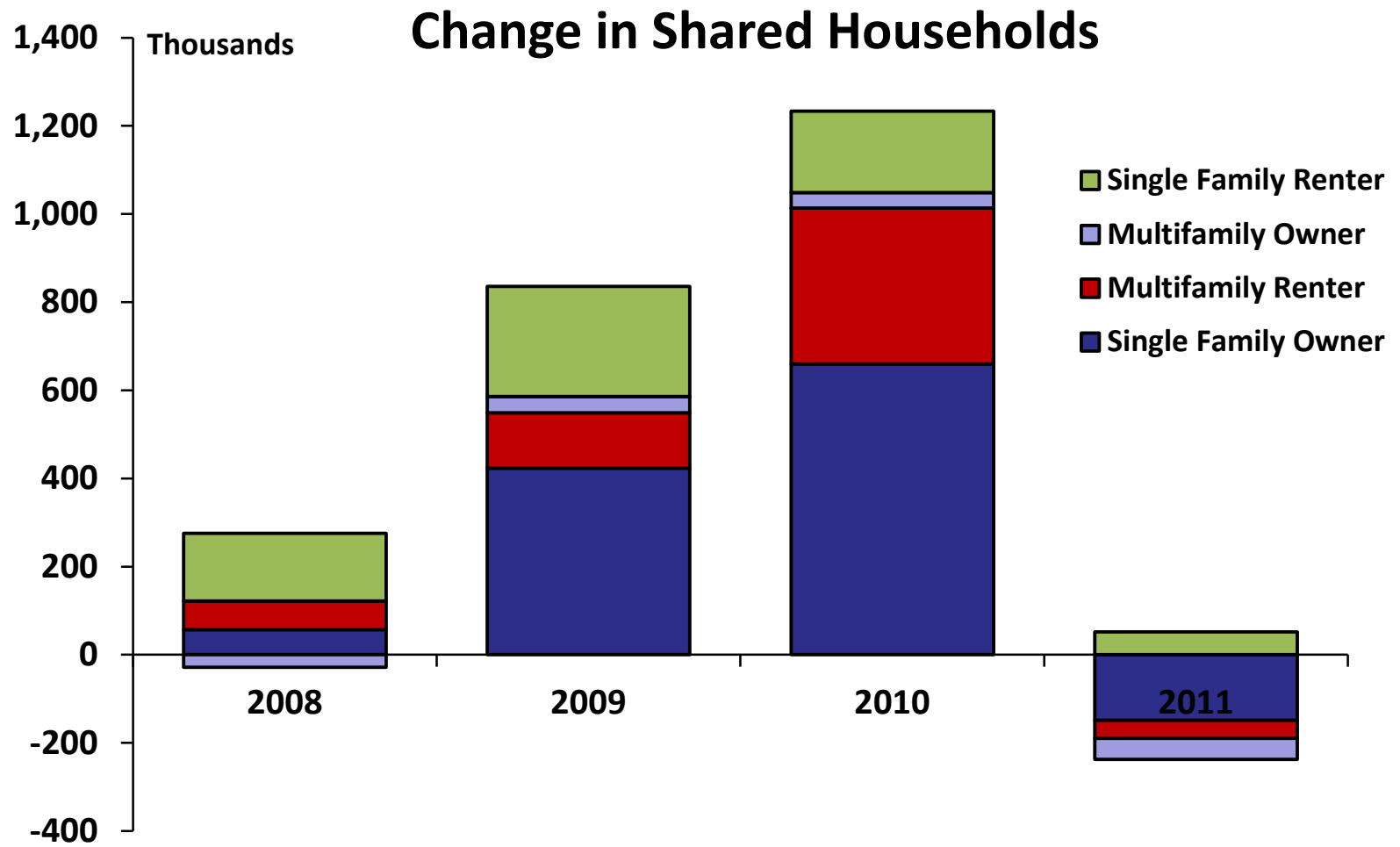
Single Family Rentals are more likely to be shared



Source: U.S. Census Bureau, American Community Survey PUMS



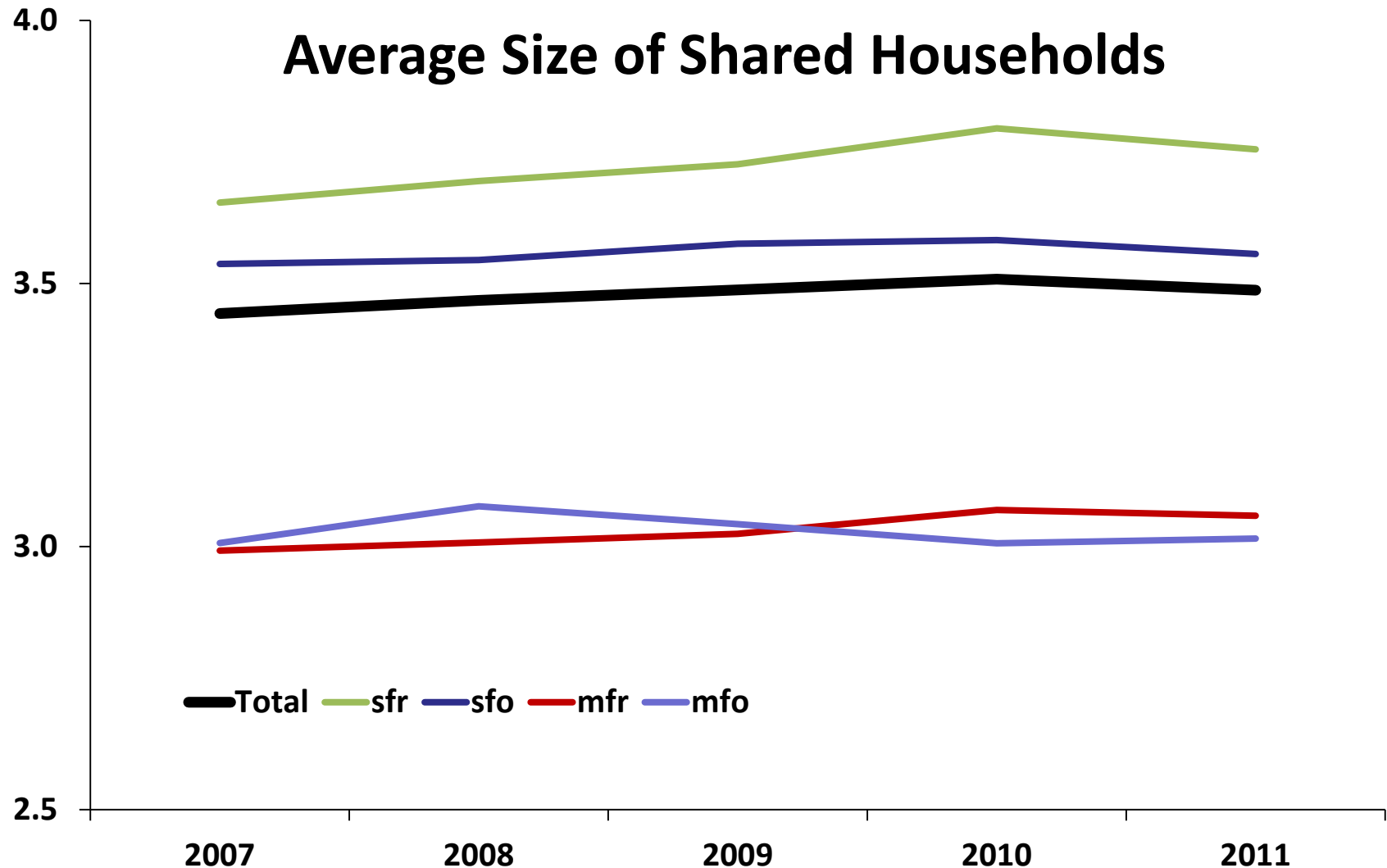
Rental households absorbed more of the increase in shared households



Source: U.S. Census Bureau, American Community Survey PUMS

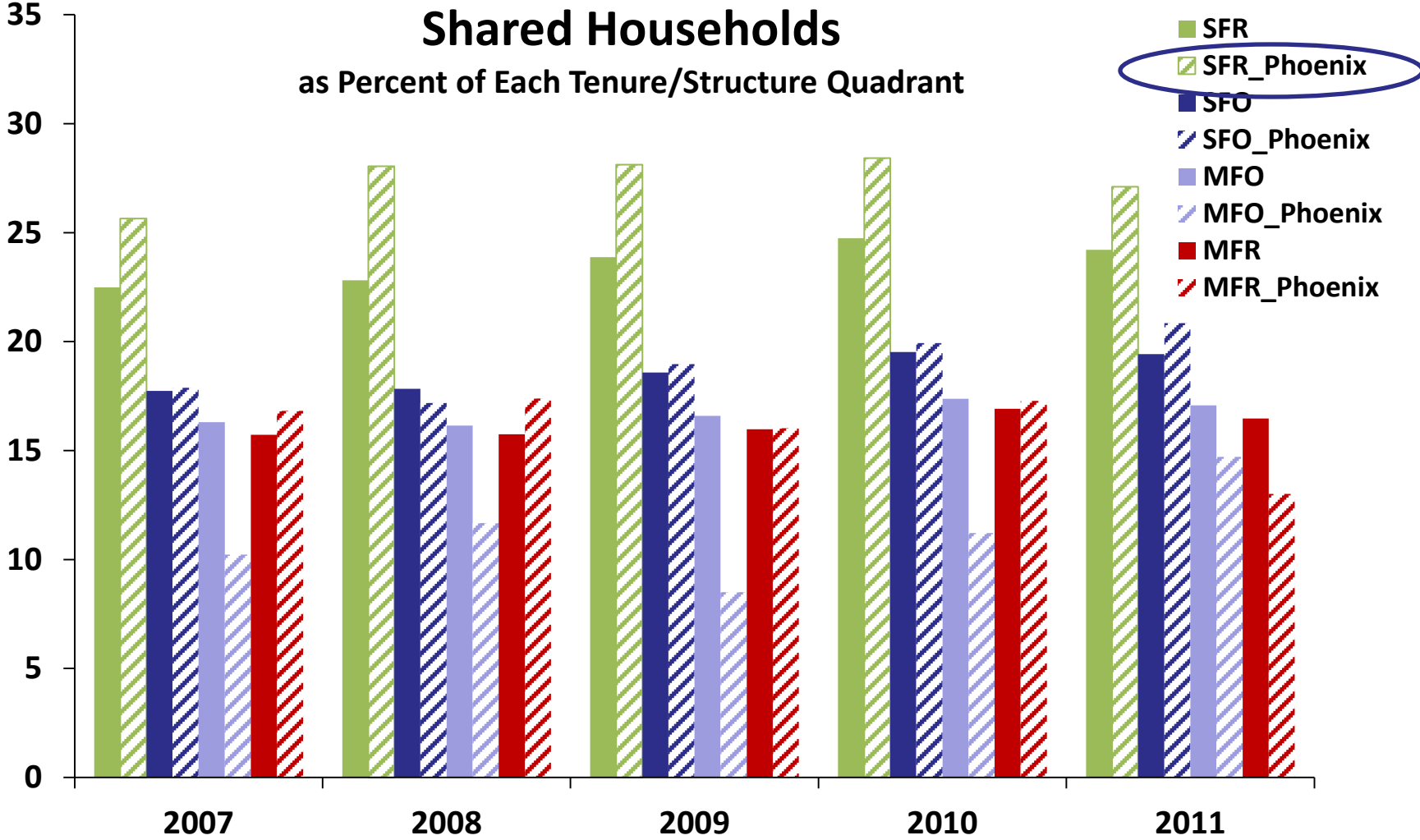


Single Family Rental households are larger than SFO or MF



Source: U.S. Census Bureau, American Community Survey PUMS

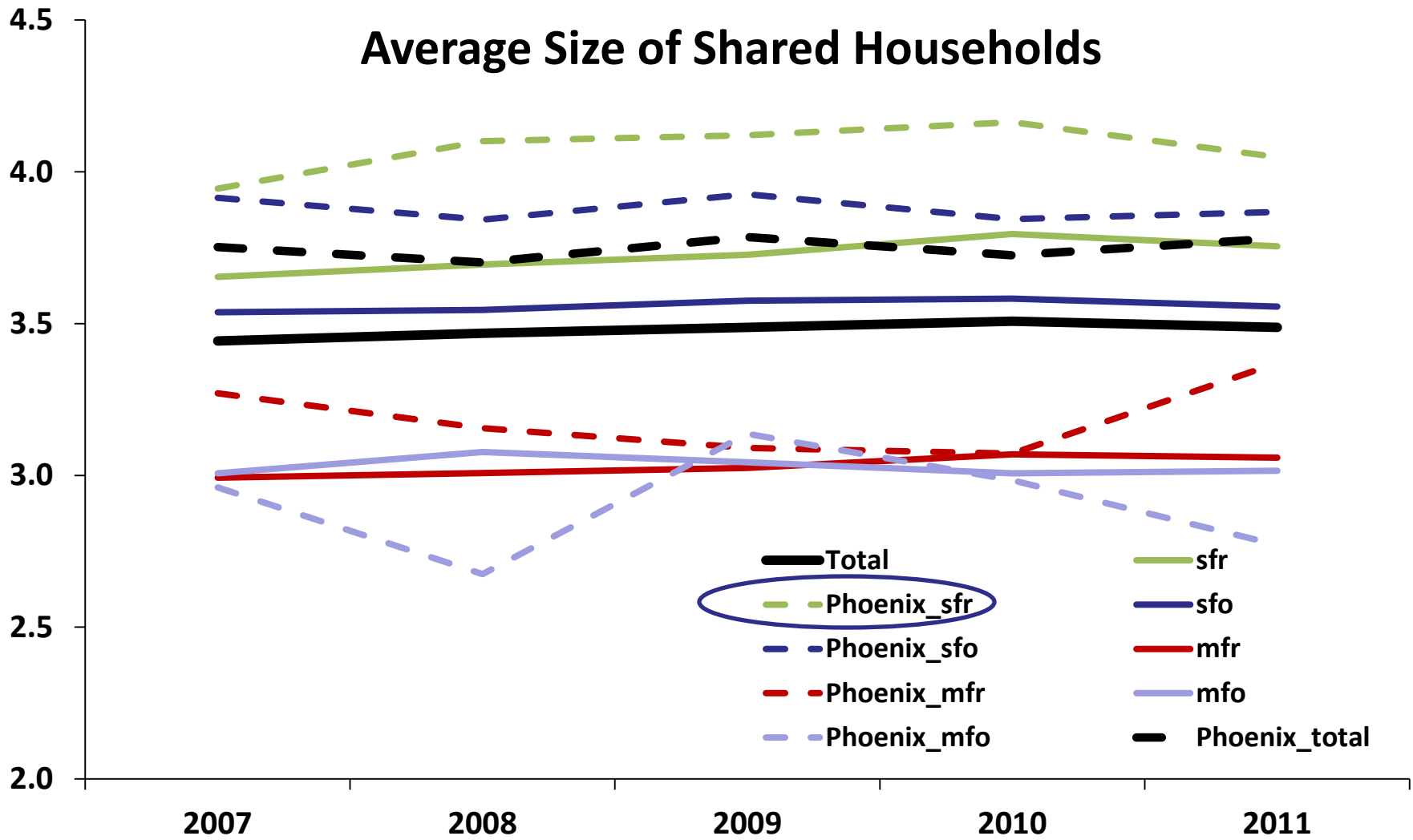
Indicators of housing strain are higher in Phoenix—esp in SFR



Source: U.S. Census Bureau, American Community Survey PUMS



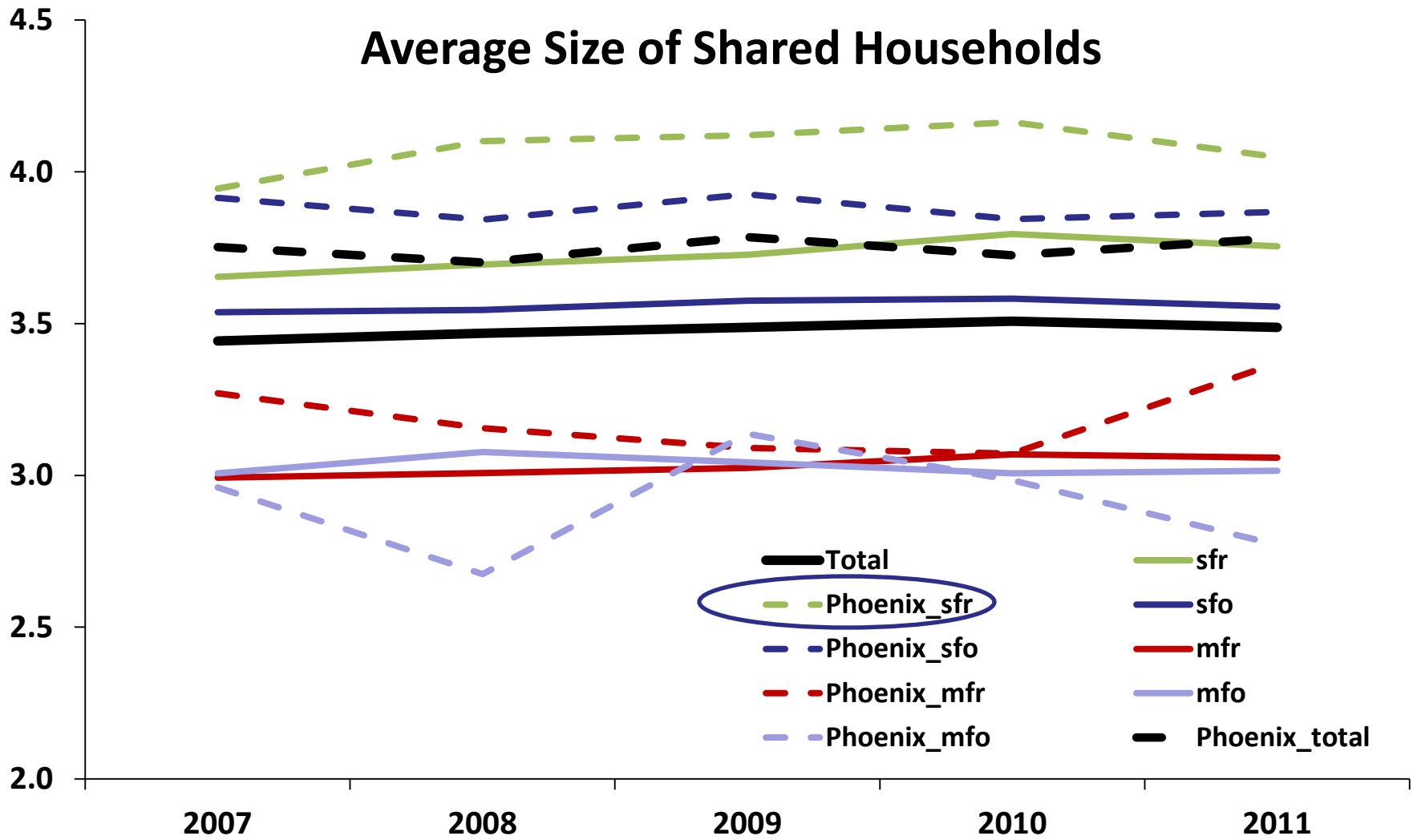
Household sizes are larger, rose more in Phoenix... especially SFR



Source: U.S. Census Bureau, American Community Survey PUMS



Household sizes are larger, rose more in Phoenix... especially SFR



Source: U.S. Census Bureau, American Community Survey PUMS



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