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SINGLE-FAMILY RENTALS: FROM CRISIS-ERA BARGAINS TO THRIVING MARKET

By Stuart Eisenberg

Ten years removed from the financial crisis, the single-family rental (SFR) market has seen explosive growth. With mortgages at the center of the crisis, the resulting spike in foreclosure rates and housing prices challenged homeownership as the status quo. The crash brought an outpouring of demand into the rental markets. From 2005 to 2015, more than 8 million new rental housing units were built to accommodate that demand, according to Harvard University's Joint Center for Housing Studies.

Real Estate Investment Trusts (REITs) and other institutional investors first entered the SFR arena during the heart of the crisis. The business strategy at the onset was simple: Purchase distressed assets and wait for the prices to increase, converting properties into rentals to supply the newly ignited demand in the meantime.

As the housing market recovers, demand for rental properties has not subsided. Riding the wave of that demand, SFR REITs have built a sustainable business model. Smaller landlords still outnumber corporate SFR investors by a wide margin, but REITs have carved out a small share of the market. According to *Seeking Alpha*, 130,000 of the 16 million SFR units are REIT-owned.

The SFR market comprises a small, but mighty and expanding, segment of today's overall REIT landscape. Blackstone's successful debut of Invitation Homes in 2017 granted further legitimacy to a REIT sector still in its infancy. As the fifth-listed SFR REIT, Invitation Homes raised $1.54 billion—the largest raised by a REIT across all sectors in three years. With rental demand forecasted to continue, SFR REITs are well-positioned for the future.

WHAT'S TIPPING THE SCALES FROM HOMEOWNERSHIP TO RENTALS?

Millennials are often identified as key drivers in the shift from owning to renting, and the data supports that claim: nearly two-thirds of millennials lived in rental properties in 2016. However, a strictly generational-lens obscures the full story. Many of those younger

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renters reside in apartments in large cities versus single-family rental homes more commonly found in markets like Atlanta, the outskirts of Los Angeles, and Phoenix.

A recent analysis published in ***Seeking Alpha*** reveals that the majority (58 percent) of SFR tenants are between 35-64 years old—predominantly Generation Xers. Additional research suggests income levels might be the common variable. A **U.S. Census survey** reveals that about half of American renters are cost-burdened—rent accounts for more than 30 percent of their income.

THE PATH FORWARD FOR SFR REITS

With just a fraction of the nation's SFR homes under institutional investors' ownership, opportunities for REITs to further expand into this space are vast. In their early years, SFR REITs prioritized growth, primarily through acquisitions of pools of foreclosed properties and consolidation. Invitation Homes became the largest SFR company following a 2017 merger with Starwood Waypoint Homes—a REIT already the product of a merger two years earlier.

While juggling the day-to-day balance of keeping vacancies low and rents competitive, some players in the SFR space are expanding their purview beyond property management. American Homes for Rent, for instance, is actively engaged in bringing new supply online through partnerships and subsidiaries with developers specialized in 'build-to-rent' properties. Overall new 'build-to-rent' properties increased by six percent between 2016 and 2017, according to the ***National Real Estate Investor***, a gesture to market confidence in future demand.

What's next for corporate SFR investors? REITs are emerging from their growth-phase and breaking new ground to cement their place in the SFR industry.

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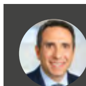

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