JUNE 2021

SINGLE-FAMILY RENTALS

A Look into Single-Family Rental Supply & Demand and the Opportunity for Build-to-Rent

Single-Family Rental (SFR), as an asset class, has seen tremendous growth in volume, market share and institutional interest in recent decades. SFRs saw a sharp uptick post-financial crisis when housing affordability concerns pushed many homeowners back to renting. Additionally, continued growth in the SFR asset class is supported by the lifestyle and lifecycle changes spurred by millennials, Gen Xers, and baby-boomers alike. More recently, continued concerns over housing affordability and migration trends accelerated by COVID-19 have helped to further create a surplus demand for SFRs, which sit within an already under-supplied housing market. Estimates indicate the U.S. housing market requires an additional 3.8 million housing units to match long-term demand.[1]

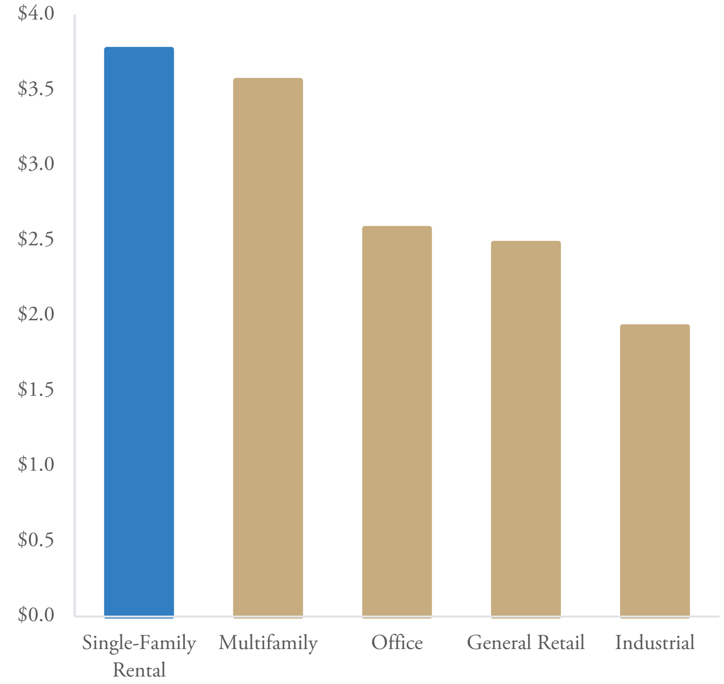
Crow Holdings believes the supply shortage, detailed above, coupled with the increasing age of existing SFR product results in an opportunity for new Build-to-Rent (BTR) communities to enter the market. Further supporting this belief is that outsized growth in prime BTR age cohorts, those aged 25-65, is expected to lead to demand for an additional 1.1 million purpose-built rental homes over the next 5 years.[2]

New BTR communities, as compared to current SFR stock, are differentiated by being professionally managed, more technologically advanced, and maintenance-free to the renter. They also offer more space and privacy for renters and can be in more desirable neighborhoods. New smart home technology features satisfy tenant desire for easy and efficient living that likely cannot be met with dated product. Additionally, the bulk of the attributes of new BTR communities are often unattainable in traditional multifamily product for renters with a median income.

INSTITUTIONAL INVOLVEMENT AND MARKET SHARE

SFRs saw steady increases in value for multiple decades but U.S. market share estimates always trailed behind traditional multifamily; however, Q4 estimates indicate SFRs hold the largest portion of market share at $3.8 trillion, compared to $3.6 trillion for traditional multifamily.[3]

ASSET VALUES
(Trillions)



Source: U.S Census Bureau, CoStar Advisory Services
As of Q4 2020

Historically, SFRs were predominantly owned by smaller investors; individual landlords who owned a handful of investments in single-family homes. Institutional investment in the space began to increase in the last decade when a handful of institutions saw an opportunity to bring expertise to the industry; however, institutional ownership remains low at 2% compared to 55% of traditional multifamily.[4] Advancements in technology create a unique advantage for institutions investing in SFRs, allowing for virtual leasing, touring, and, in some cases, maintenance. These features result in more achievable economies of scale, which can drive continued institutional interest and investment in both SFRs and BTRs.

AFFORDABILITY

In the first half of 2020, home sales took a steep downturn as fewer buyers were looking for homes amongst an economically turbulent period and fewer sellers were willing to take the risk of letting strangers into their home during a pandemic.[5] However, as the pandemic continued, sales activity grew significantly, leading to an increase in home prices during an otherwise recessionary period. As of Q1 2021, home prices have been rising at the fastest pace since 2006, with over a 10% increase year-over-year.[6] The median existing home price exceeded $300,000 in summer 2020 and was $313,000 in February 2021, a 16% increase since February 2020.[7] This rise in home prices makes ownership even more difficult for potential homebuyers with affordability concerns. Whether those concerns relate to saving for a down payment or being approved for a mortgage, increasing home prices present a substantial roadblock to ownership.

As further support, the Mortgage Credit Availability Index drifted slightly higher since the fall but remained approximately 31% lower in December than at the beginning of 2020.[8] Stricter requirements from lenders are prevalent across all levels of borrowings; over 70% of new mortgages issued in 2020 were made to borrowers with credit scores greater than 760.[9]

MORTGAGE CREDIT AVAILABILITY INDEX

(NSA, 3/2012=100)

Source: Mortgage Bankers Association; Powered by Ellie Mae's AllRegs ®Market Clarity®

Renting is an attractive choice for families struggling with housing affordability concerns, but their options remain limited within traditional multifamily. 3+ bedroom units represent less than 5% of new apartment supply since 1980.[3] This leaves owning or renting single-family homes as one of the only viable options for many families. Single-family homes offer additional comforts typically not achievable with traditional multifamily such as access to attached garages, private backyards, and no wall-sharing between units, among others. It is currently less expensive to rent than buy in 66% of the most populated counties in the U.S., including in markets like Dallas, Houston, Los Angeles and Riverside.[10]

As we observed through the 2008 financial crisis, affordability concerns lead to stronger SFR demand since they provide an attractive alternative to homeownership without the financial constraints associated with owning a home.

DEMOGRAPHIC TAILWINDS

Significant life stages, which historically resulted in a shift from renting to owning, such as marriage or having a child, are being achieved considerably later in life than previous years. Over the last thirty years, the median age of first marriage for men increased from 26 to 31 and from 24 to 28 for females.[3] Similarly, both the ten-year and twenty-year trends in birth rate for women 15-44 decreased, and the age at which women first have children increased.[3] For families with children, SFRs can be a more flexible and affordable option, offering excellent neighborhoods and good school districts without the commitment or financial burden of buying a house. In a study done by the Terner Center at University of California – Berkeley, respondents consistently pointed to the influence children have on housing decisions, with most of them prioritizing neighborhoods with good schools and a high level of neighborhood safety.[11] On average, SFR renters in this study also reported their neighborhood conditions improved by moving to a SFR and that renting allowed them to be in better neighborhoods than they could afford to buy in. SFRs can be similarly attractive to aging adults looking to downsize, but who desire flexibility and affordability. Q4 2020 data indicates there are nearly just as many renter households over age 55 as there are under age 35.[4]

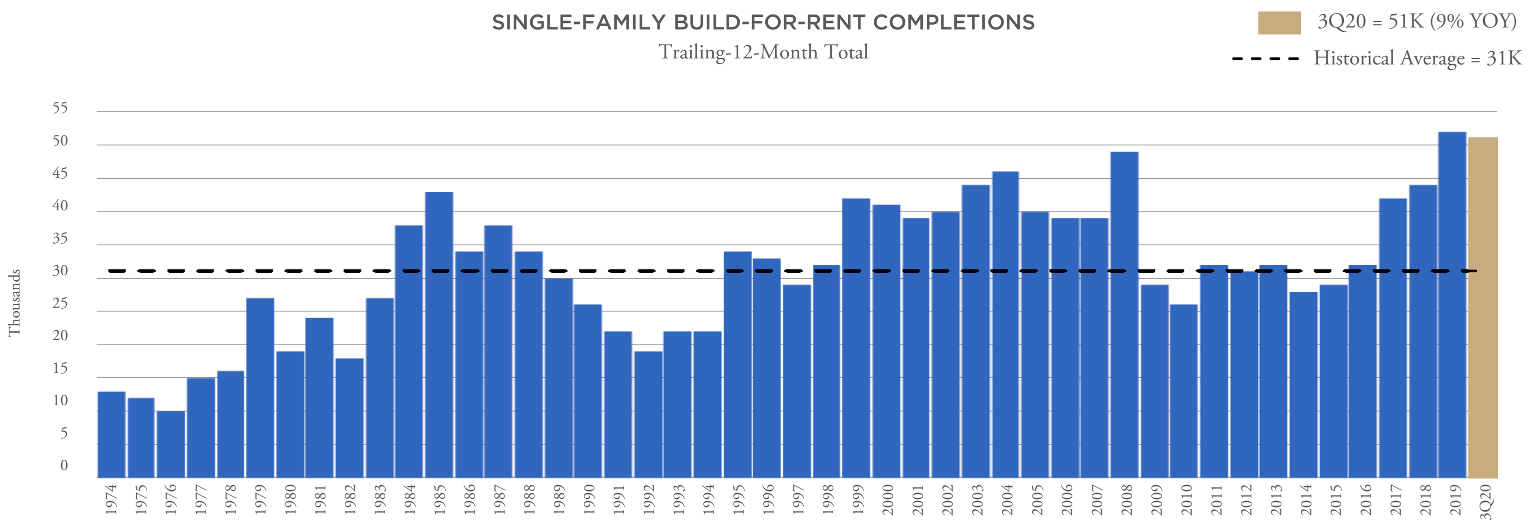
Additionally, many companies switched to a remote working environment, either temporarily or permanently, because of the COVID-19 pandemic. As vaccinations continue to be rolled-out, a hybrid of work-from-home and in-office presence may likely become the "new normal." Recent surveys indicate that 62% of employers and 45% of employees agree on working from home 2-4 days a week.[3] With additional time spent at home, many families and individuals have been, and continue to be, seeking homes offering more space, including space for a dedicated office, bigger yards, and added privacy, all of which can lead to further increased SFR demand.

BUILD-TO-RENT OPPORTUNITY

Growing demand for SFRs paired with the shortage in housing supply creates tremendous opportunity for BTR communities. Much of the existing SFR supply is dated; 85% of existing SFRs were built prior to 1999.[4] Although BTR completions spiked at the onset of the financial crisis in 2008, they slowed to below the historical average until 2016. BTR completions have steadily increased over the last 5-years, with a 9% increase year-over-year in 2020.[4]

SINGLE-FAMILY BUILD-FOR-RENT COMPLETIONS

Trailing-12-Month Total



Note: This category includes all new residential homes placed on the rental market at completion. Data does not include wholesale and one-off transactions from new home builders to investors.
Sources: U.S. Census Bureau; John Burns Real Estate Consulting, LLC (Data Q3 2020, Pub Dec 2020)

Additionally, SFR occupancy rates passed the historical average in 2020 at 95%, the highest rate since 1995.[4] Annualized turnover rates for SFRs average approximately 30%[4], compared to approximately 42% for multifamily.[12] Lower turnover results in lower costs and higher occupancies, leading to healthier cash flows for income seeking investors, with gross rental yields averaging between 6%-9% in major U.S. markets.[4] Consistent rent growth, high occupancy, and sticky tenants allow SFRs to have more durable cashflows making them an attractive option for institutional investment.

CONCLUSION

Investors' interest in SFRs spiked at the onset of the financial crisis but Crow Holdings believes favorable macroeconomic tailwinds and generational changes in lifestyle have intensified the demand for this sector. COVID-19 accelerated changes in lifestyle, such as more time spent at home and the ability to live further away from dense urban areas, allowed many renters to explore SFRs. SFRs provide benefits of homeownership like privacy, additional room, and outdoor space without the associated financial burden. SFR and BTR supply is struggling to keep up with the growing market demand for the sector creating what we believe is a prime opportunity for investment in the space.

CROW HOLDINGS INVOLVEMENT

Trammell Crow Residential (TCR), the multifamily development company of Crow Holdings, has over 40 years of experience developing multifamily residences nationwide. TCR's on-the-ground presence in 15 locations has allowed TCR to establish relationships with single-family builders across the country, the goal of which is to build professionally managed communities that will address the needs and desires detailed above: BTRs that are more technologically advanced, efficient, and maintenance-free to the renter, which also offer more space and privacy in more desirable neighborhoods. TCR's established track record in developing residential communities across the U.S. offers a competitive advantage in being able to identify the right markets, partners, and opportunities for BTR communities.

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NOTICES

ABOUT CROW HOLDINGS

Crow Holdings is a privately-owned, Dallas-based real estate investment and development firm with a 70-year operating history and $20 billion of assets under management. With a strong track record of performance across property types and market cycles, its activities span a range of strategies and return profiles. Operating from 17 offices across the U.S., Crow Holdings has extensive industry reach with expertise in multifamily, industrial, office and specialty sectors. Over the past 40 years, Crow Holdings operating companies have developed or acquired more than 1,000 multifamily communities, representing more than 300,000 units, and since 1998, have developed or acquired nearly 90 million square feet of industrial real estate across the U.S.

3889 Maple Avenue | Dallas, TX 75219 | U.S. | www.crowholdings.com | info@crowholdings.com | 214-661-8000

By Steve Bancroft & Roshni Bedi