

A Closer Look at the U.S. Single-Family Rental Market



The U.S. single-family rental (SFR) market has been attracting a lot of attention lately, and for good reason. Work-from-home trends spurred by the global pandemic are contributing to a renter population finding single-family rentals more attractive than ever. An influx of private and institutional capital to the SFR space is reflected in a steeply declining rental yield found not only nationally, but across key metros. In addition to scattered single-family rentals, built-for-rent communities are becoming increasingly popular, where single-family homes are developed with the strict intention to rent. With SFR construction skyrocketing, and investor interest at all-time highs, we won't find anywhere else.

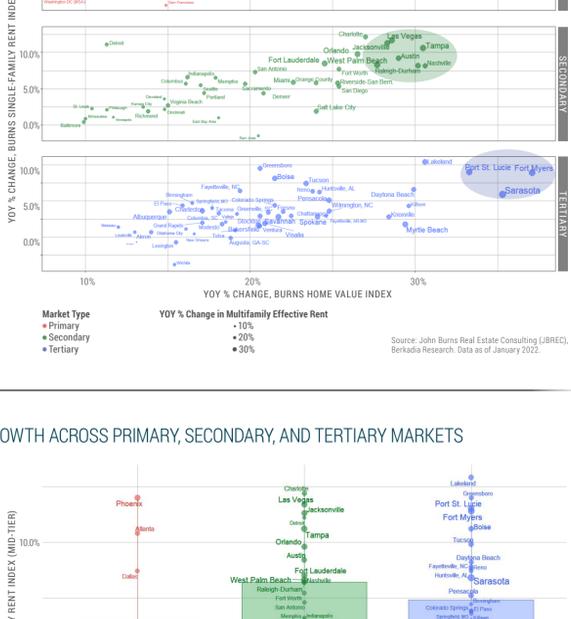
First let's quickly look at the SFR market from 30,000 feet

SFR RENT AND VALUE GROWTH ACROSS PRIMARY, SECONDARY, AND TERTIARY MARKETS

Higher rates of growth in SFR home values and rents are found in secondary and tertiary markets. However, primary markets such as Phoenix, Atlanta, and Dallas show strong stats in this respect.

Tertiary markets such as Fort Myers, Lakeland, Sarasota, and Port St. Lucie show outsized growth in rent and value. Compared to their primary and secondary counterparts, growth in home values in tertiary markets is particularly strong.

As expected, across all market types there exists a trend where strong SFR performance occurs alongside strong multifamily performance in the same market.

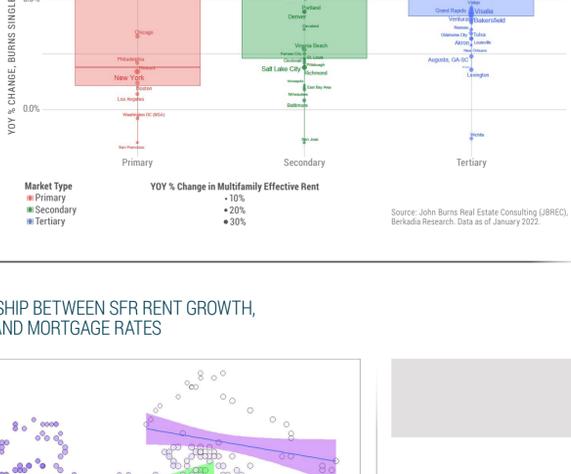


Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Data as of January 2022.

ISOLATING SFR RENT GROWTH ACROSS PRIMARY, SECONDARY, AND TERTIARY MARKETS

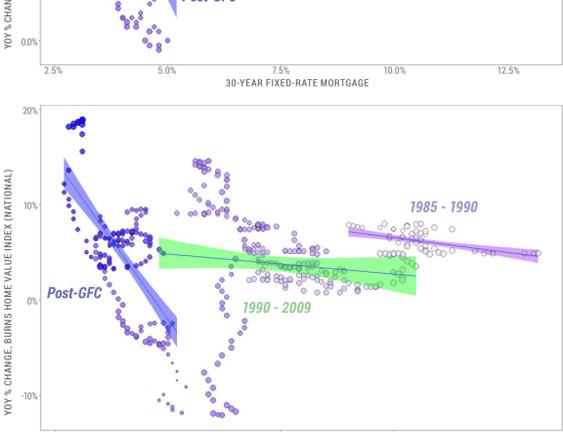
Isolating rent growth, we can more clearly see that secondary and tertiary markets outperform in this respect relative to primary markets. Sun Belt markets are disproportionately represented in the set of markets with high rent growth.

Just like the first chart, we can see that strong SFR rent growth tends to occur alongside strong multifamily rent growth.



Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Data as of January 2022.

AN EVOLVING RELATIONSHIP BETWEEN SFR RENT GROWTH, HOME VALUE GROWTH, AND MORTGAGE RATES



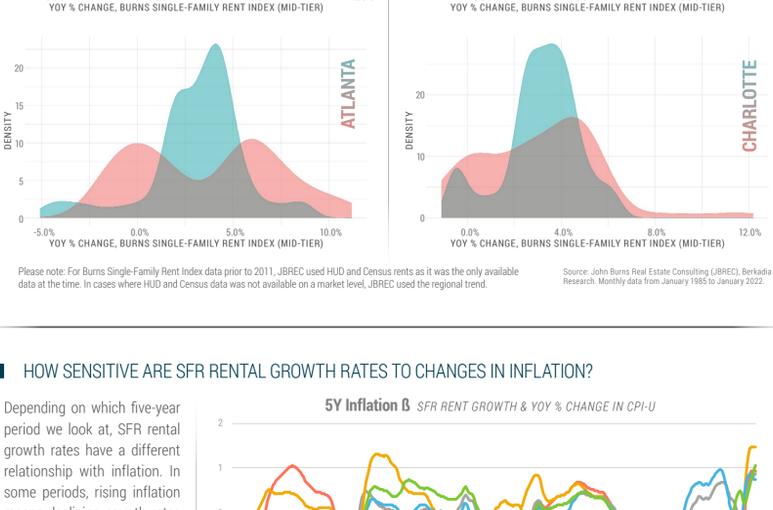
The relationship between SFR rent growth, home value growth, and mortgage rates has been evolving over time. Look at the trendlines for the periods 1985 to 1990 and 1990 to 2009. The trendlines for these periods are rather flat, but the trendlines for the post-GFC periods are steeply negative in slope, implying small movements in rates have large impacts on SFR rent and home value growth. In this sense, SFR in the post-GFC era is more sensitive to mortgage rates.

Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Monthly data from January 1985 to January 2022.

Now let's cover some key SFR markets in detail

PRE- AND POST-GFC WORLDS – A DIFFERENT STORY OF SFR RENT GROWTH

Looking at the distribution of SFR rental growth rates from 1985 to present, we see entirely different profiles between pre-GFC and post-GFC periods. The pre-GFC period can be characterized by non-extreme growth rates – most growth rates fall between a narrow band of values. Post-GFC, we see a more diverse spectrum of rental growth rates.

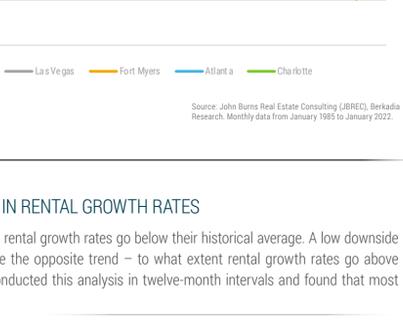


Please note: For Burns Single-Family Rent Index data prior to 2011, JBREC used HUD and Census rents as it was the only available data at the time. In cases where HUD and Census data was not available on a market level, JBREC used the regional trend.

Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Monthly data from January 1985 to January 2022.

HOW SENSITIVE ARE SFR RENTAL GROWTH RATES TO CHANGES IN INFLATION?

Depending on which five-year period we look at, SFR rental growth rates have a different relationship with inflation. In some periods, rising inflation means declining growth rates (negative inflation β), and in others, the opposite is true (positive inflation β). Most recently, Fort Myers and Charlotte are benefiting the most from rising inflation – rising inflation implies rising rental growth rates to the greatest extent. All other markets have recently seen rising growth rates under rising inflation but to lesser extents than in Fort Myers and Charlotte.

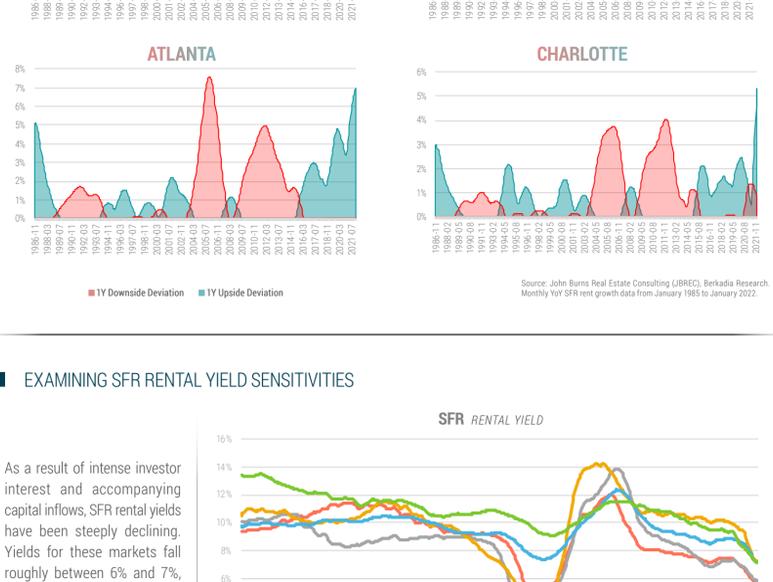


Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Monthly data from January 1985 to January 2022.

ASSESSING UPSIDE AND DOWNSIDE VOLATILITY IN RENTAL GROWTH RATES

Here we use downside deviation to measure to what extent SFR rental growth rates go below their historical average. A low downside deviation is good. Similarly, we use upside deviation to capture the opposite trend – to what extent rental growth rates go above their historical average. A high upside deviation is good. We conducted this analysis in twelve-month intervals and found that most markets experience cyclical patterns in this respect. At present, downside deviation across most markets we cover is remarkably low – rental growth over the past year is very much above the historical average.

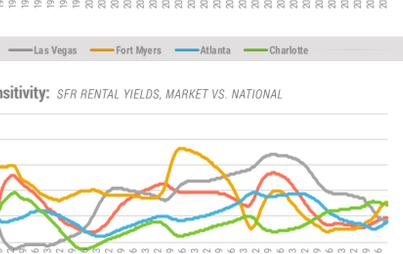
Fort Myers stands out from a downside deviation perspective – the market experienced a much shorter bout of downside deviation in rental growth, post-GFC. Where other markets experienced sub-par rent growth until 2015 or 2016, Fort Myers bounced back from the GFC by 2014. Also notable is Phoenix, clocking in with the largest recent upside deviation of the markets considered.



Source: John Burns Real Estate Consulting (JBREC), Berkadia Research. Monthly YOY SFR rent growth data from January 1985 to January 2022.

EXAMINING SFR RENTAL YIELD SENSITIVITIES

As a result of intense investor interest and accompanying capital inflows, SFR rental yields have been steeply declining. Yields for these markets fall roughly between 6% and 7%, compared to the pre-GFC minimum of 4% and the post-GFC maximum of 14%.



It's useful to know how sensitive a market's yields are to movements in the national yield. There's been a great deal of variation over time, especially with respect to Las Vegas in the early 90s, but lately each market's sensitivity has been rather homogeneous. Fort Myers leads the way with a sensitivity of 1.6, indicating that for every 1% rise (decline) in the national SFR yield, the Fort Myers yield will rise (decline) by 1.6%.



The single-family rental market is evolving into one with more institutional interest; however, for the time being it is still largely dominated by mom-and-pop operators. We at Berkadia expect the single-family rental market to continue its evolution into an institutional space, and rapidly so. We will continue monitoring the SFR market and encourage you to reach out to us with questions or comments.

ABOUT BERKADIA RESEARCH

Berkadia Research leverages proprietary models and analytics to deliver actionable insights to the commercial real estate industry. Covering markets and submarkets across the nation, our experts monitor and interpret market fundamentals and utilize data science to uncover hidden trends. Through a combination of curiosity and expertise, we aim to augment client decision-making by providing data-driven and unique research not found elsewhere.

Contact Us

research@berkadia.com

SOURCES: Proprietary statistical models by Berkadia Research, John Burns Real Estate Consulting (JBREC), Federal Reserve Economic Data (FRED).