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Single-Family Rentals Growing as an Institution-Owned Asset Class

By **Sandeep Bordia**

Institutional ownership of single-family rental (SFR) homes in the United States has surpassed 240,000 homes owned, totaling nearly $40 billion of investment in the sector. In 2017, the number of SFR homes purchased by institutional investors increased year-over-year for the first time since 2013, and 2018 year-to-date purchases have thus far sustained the same pace as 2017, according to Amherst data. In our view positive macro tailwinds, supportive demographics and economies of scale have created an established foothold for institutional SFR operators to expand further in 2019.

Demand is expected to remain strong

Home prices and rents remain reasonably well-supported and continue to see tailwinds from a variety of factors related to demographics, economics and consumer preferences. Amid rising levels of student loan debt, relatively flat wage growth and tight mortgage credit availability, renting has emerged as an affordable solution for many consumers. While mortgage credit availability has improved marginally, it still remains at or around historically tight levels. And even as long term trends continue to favor rental demand, especially for single family homes, many SFR markets continue to trade at attractive cap rates.

Outlook for institutional SFR markets remains positive

Institutional SFR operators remain active in many U.S. markets. In particular, Southeast, West and Midwest, to a lesser extent, remain the most popular target markets. Las Vegas—the slowest big city to recover from the crisis—has finally showed signs of strength with double-digit price growth to date in 2018, according to Amherst data. Seattle maintained strong momentum driven by the tech boom and its tight housing supply. We believe these markets, as well as other high-growth mid-tier markets, will continue to grow in institutional SFR ownership through 2019.

Institutions improving in managing SFR portfolios at scale

Institutional SFR owner-operators have also become better at managing their SFR portfolios. There is increasing evidence of benefits they are reaping from professional scale management and better funding strategies for single family homes. Using proprietary technology and platforms, institutions can better identify acquisition opportunities, maximize occupancy and optimize rents as compared to mom-and-pop investors. With the help of tech-enabled infrastructure, institutions have also improved their ability to manage resources and repair homes. We expect these practices to continue to help generate growth and improve NOI margins in the long-term.

In sum, we believe SFR continues to distinguish itself as a stable, long-term, institution-owned asset class. Expect plenty of noise especially on rising interest rates and what they mean for the housing market, but in all likelihood, 2019 should look a lot like 2018 for the SFR sector: a year

of further expansion, steady home price growth, ongoing improvement in margins and additional injection of capital, solidifying SFR's emergence as an attractive alternative asset class for all types of investors. Operators focusing on the right asset and right location with full vertical integration are likely to shine most, in our opinion.

Photo: Getty Images

Sandeep Bordia is a managing director and head of research and analytics at The Amherst Group, LLC "Amherst".

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