April 1, 2021

Single-Family Rentals: *Frequently Asked Questions*

The purpose of this Research Brief is to address some of the frequently asked questions about the single-family rental (SFR) market. The SFR market has emerged as a rapidly growing segment for institutional real estate investment in the aftermath of the housing bust and the Great Recession of 2008-2009. While institutional ownership in single-family rentals still accounts for less than 5% of the total unit count in the segment, it is expected to continue expanding as more private and publicly traded owners/operators enter this space in the next few years.

Ten questions addressed here help prospective investors get a better understanding of the relative size or this segment nationally and across major markets, aggregate demand/supply balance, typical resident and unit profile, and demographic tailwinds supporting the outlook:

1. How large is SFR demand nationally?
2. How much does the share of SFR demand vary across markets?
3. How much has national SFR demand changed over time?
4. How many new SFR units are being built each year and how many are being converted from owner-occupied to renter-occupied?
5. How does SFR and apartments compare in terms unit size and rent?
6. How does SFR and apartments compare in terms of resident profile?
7. Do SFR compete with apartments?
8. What is the current SFR demand/supply balance?
9. How do SFR and apartments compare in terms of recent operational performance?
10. How will changing age demographics impact SFR demand going forward?

1. How large is SFR demand nationally?

   Based on the two major sources, SFR demand is estimated to be 14.5-15.1 million units or 32.9-33.8%of total rental demand. From the perspective of residential mortgage lending; however, the segment also includes small multifamily properties (two to four units in structure) which are estimated to capture another 7.6-7.8 million renters or 17.3-17.5% of the total as shown in the table below. The estimated market value of the SFR market is about $4.5 trillion and about $6.5 trillion if including rental properties with two to four units.

Units in Structure	Renter-Occupied Units, *Millions* ACS	AHS	% Total ACS	AHS
1	14.5	15.1	32.9	33.8
2-4	7.6	7.8	17.3	17.5
5+	20.0	20.1	45.4	44.9
Other*	1.9	1.7	4.4	3.8
Total	**44.1**	**44.6**	**100.0**	**100.0**

** Manufactured/mobile homes, trailers, boat, RV, van, etc.*
Sources: American Community Survey (ACS), American Housing Survey (AHS), Berkshire Research.

2. How does the share of SFR demand vary across markets?

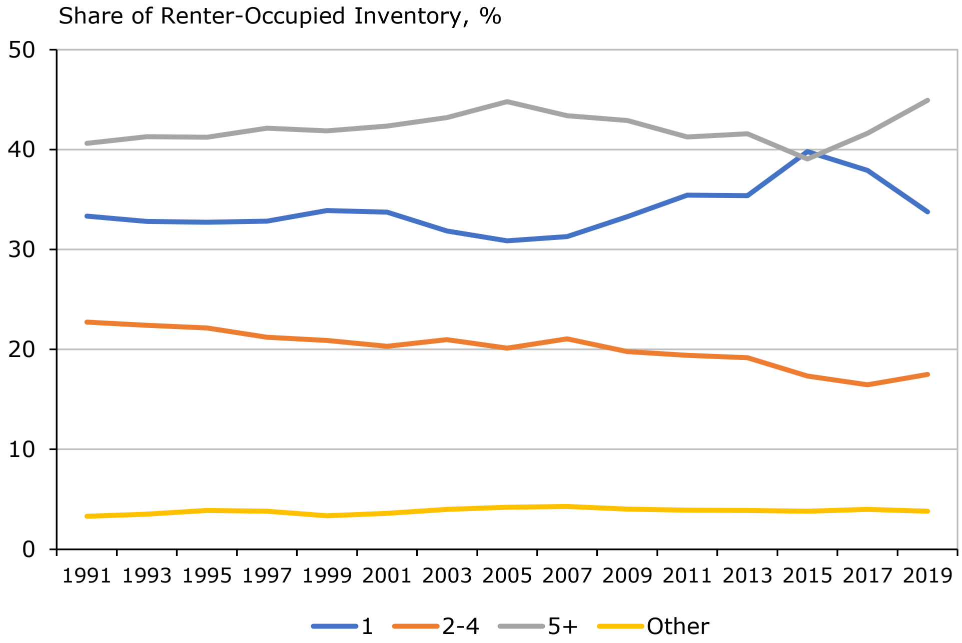
The composition of rental demand varies widely across the country. The table below shows this composition for the 40 markets tracked by Berkshire Research on a regular basis. Across this sample, the SFR share of rental demand ranges from less than 6% in New York to 47% in Riverside. At the same time, the share of rental demand accounted for by properties with two to four units are among the highest in the most mature markets (especially on the East Coast) where it is about 35% in Newark and Boston in contrast to Washington, D.C. where it is less than 7% or Houston, Denver, Charlotte, or Miami where it is under 9%.

Market	Share of Renter-Occupied Stock by Units in Structure, % 1	2-4	5+	Other	
Riverside	**47.0**	13.0	**35.4**	4.5	
Sacramento	**42.4**	13.8	**42.0**	1.8	
Charlotte	**40.1**	**8.4**	44.7	**6.7**	
Long Island	**38.4**	22.4	**38.7**	0.5	
Philadelphia	**38.0**	**23.4**	**38.4**	**0.2**	**Top 5**
Las Vegas	37.0	16.8	44.1	2.1	
Phoenix	36.9	11.7	47.3	4.1	
Atlanta	36.2	8.7	51.3	3.8	
Pittsburgh	35.4	19.9	**42.1**	2.6	
Baltimore	35.2	10.3	54.1	0.4	Top 10
Orlando	33.9	11.2	51.1	3.8	
Oakland	33.6	17.0	48.5	0.8	
Fort Worth	33.4	13.0	50.6	2.9	
Raleigh	33.4	10.4	49.6	**6.6**	
Tampa	33.0	12.1	48.2	**6.7**	
San Antonio	33.0	13.9	49.1	4.0	
San Diego	32.8	9.6	55.3	2.2	
Charleston	32.2	10.8	46.6	**10.4**	
Nashville	31.6	12.7	50.2	**5.5**	
West Palm Beach	30.7	16.2	50.4	2.7	
San Jose	30.5	12.8	55.4	1.2	
Salt Lake City	28.8	15.0	54.5	1.7	
Denver	28.7	**8.3**	62.0	1.1	
Orange County	28.5	17.5	52.1	1.9	
Portland	28.3	15.4	54.2	2.1	
Houston	27.5	**8.1**	60.6	3.8	
Miami	27.3	**8.6**	**62.9**	1.2	
Los Angeles	27.1	14.3	57.7	0.9	
Dallas	25.2	9.1	**63.9**	1.8	
Seattle	25.0	11.9	61.8	1.3	Bottom 10
Austin	24.8	12.7	59.8	2.8	
Washington, DC	24.7	**6.8**	**67.8**	0.8	
Minneapolis	22.8	9.7	**66.7**	0.8	
Fort Lauderdale	21.7	16.2	60.4	1.7	
Chicago	**17.2**	**27.7**	54.6	0.5	**Bottom 5**
San Francisco	**16.8**	20.5	62.4	**0.4**	
Newark	**15.0**	**35.1**	49.6	**0.3**	
Boston	**12.5**	**34.7**	52.5	**0.4**	
New York	**5.8**	**23.1**	**70.9**	**0.2**	
40 Markets	**29.6**	**14.9**	**53.0**	**2.5**	
U.S.	**32.9**	**17.3**	**45.4**	**4.4**	

Sources: American Community Survey (ACS), Berkshire Research.

3. How much has national SFR demand changed over time?

The single-family share of the national rental demand has averaged 33.5% over the last 40 years and is estimated to be slightly above that figure now. As the chart below shows; however, SFR demand does fluctuate substantially with the housing cycle. The SFR share dropped to about 31% in 2005 as homeownership peaked but then soared to almost 40% in 2015 as homeownership was near its bottom. This is not surprising considering that most of the segment is owned by individual investors who try to sell such properties when home prices are high and buy them when prices are low. In contrast, the share of rental demand accounted for by properties with two to four units has been largely trending down since the 1980s as many properties were lost to obsolescence or demolition.

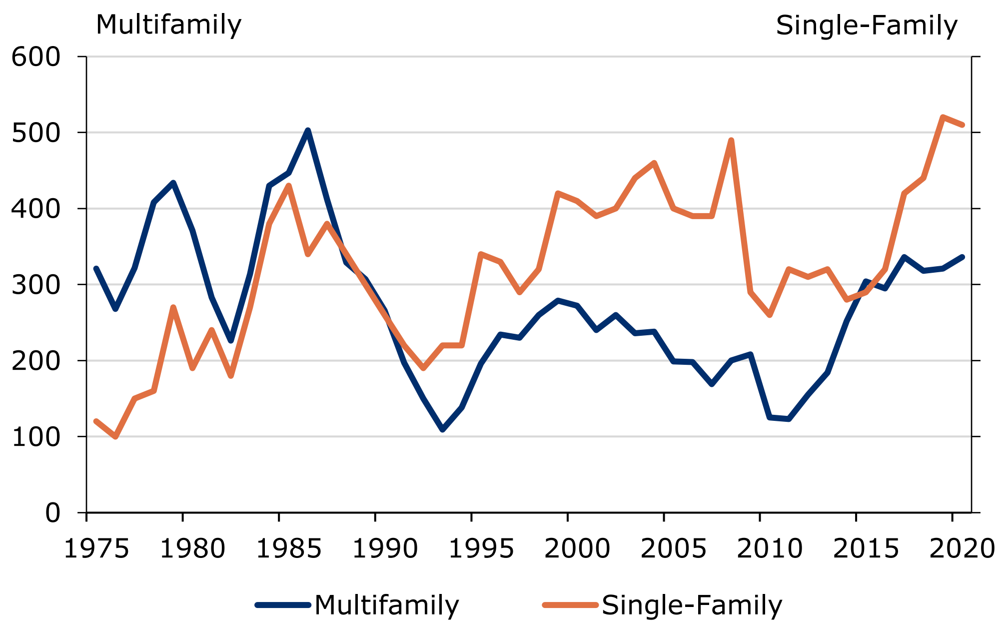


Sources: American Community Survey (ACS), Berkshire Research.

4. How many new SFR units are being built each year and how many are being converted from being owner-occupied to being renter-occupied?

   While SFR is the second largest rental demand segment after multifamily with five or more units, its annual volumes of new construction are relatively low. For example, over the last 30 years completions of single-family homes for rent averaged just 35,000 units per year or about 0.3% of the existing inventory compared to 260,000 units or 1.7% of the inventory for apartments. In fact, new SFR construction is basically just replacing inventory lost annually to demolitions in this segment. However, this does not mean that SFR supply is staying constant as hundreds of thousands of single-family homes are being converted each year from being owner-occupied or vacant for sale to being renter-occupied or vacant for rent (although the opposite also takes place depending on housing market conditions).

New Residential Completions Intended for Rent
Thousands of Units



Sources: Bureau of the Census, Berkshire Research.

5. How does SFR and apartments compare in terms unit size and rent?

   Nationally, the average size of a SFR home is estimated to be 1,555 square feet compared to 944 square feet for apartments, although these figures do vary widely across markets, submarkets, and types of product. For example, an average garden-style apartment unit in the suburbs would be larger compared to a high-rise unit in a city. While the average monthly cost for a SFR unit is higher relative to apartments, SFR homes are notably more affordable on a per square foot basis with the average of $0.93 compared to $1.40 for apartments.

Units in	SQ FT	Monthly Cost, $	
Structure	per Unit	per SQ FT	per Unit
1	1,555	0.93	1,186
2-4	1,124	1.03	1,156
5+	944	1.40	1,109
Other	1,074	0.76	811
Total	**1,187**	**1.10**	**1,071**

Sources: American Housing Survey, Berkshire Research.

6. How does SFR and apartments compare in terms of resident profile?

Given a notably larger square footage of a SFR house relative to a typical apartment, it is not surprising that the segment derives much of its demand from families with children. For example, over 41% of renters age 45-54 chose to live in single-family homes compared to 38% preference for apartments. In contrast, over half of renters age 25-29 rent apartments compared to about 28% residing in single-family homes.

As a result, households in prime family age groups (35-64) account for 57% of SFR demand compared to 45% of demand for apartments (five or more units in structure). However, it is important to recognize that while households under the age of 35 and households over the age of 65 do have higher propensities to rent apartments. These groups do rent single-family homes as well while many middle-aged households rent apartments.

Renter Demand Composition by Age and by Units in Structure

	Share of Renter-Occupied Units by Units in Structure, %				
Age	**1**	**2-4**	**5+**	**Other**	**Total**
< 25	6.1	9.7	10.1	7.9	8.6
25 - 29	10.4	12.4	13.9	11.5	12.4
30 - 34	12.7	12.2	11.8	10.7	12.1
35 - 44	22.3	19.4	17.5	24.6	19.7
45 - 54	20.0	16.2	13.8	15.2	16.4
55 - 64	15.0	16.3	13.6	17.7	14.7
65 - 74	8.4	8.1	9.5	7.0	8.8
75+	5.1	5.8	9.8	5.4	7.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

	Share of Renter-Occupied Units by Household Age, %				
Age	**1**	**2-4**	**5+**	**Other**	**Total**
< 25	24.0	19.8	52.7	3.5	100.0
25 - 29	28.4	17.6	50.5	3.5	100.0
30 - 34	35.4	17.6	43.7	3.3	100.0
35 - 44	38.2	17.2	39.9	4.7	100.0
45 - 54	41.4	17.3	37.8	3.5	100.0
55 - 64	34.4	19.4	41.7	4.6	100.0
65 - 74	32.3	16.0	48.7	3.0	100.0
75+	23.4	13.8	60.0	2.8	100.0
Total	**33.8**	**17.5**	**44.9**	**3.8**	**100.0**

Renter Demand Composition by Household Size and by Units in Structure

	Share of Renter-Occupied Units by Units in Structure, %				
Persons per Household	**1**	**2-4**	**5+**	**Other**	**Total**
1	24.0	38.7	49.4	29.4	38.2
2	27.0	28.8	28.4	27.6	28.0
3	18.5	14.9	11.9	21.9	15.0
4	15.6	9.8	7.0	14.4	10.7
5	8.4	5.1	2.6	6.6	5.1
6	4.2	1.5	0.6	*NA*	2.0
7+	2.3	1.2	0.2	*NA*	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

	Share of Renter-Occupied Units by Units in Structure, %				
Persons per Household	**1**	**2-4**	**5+**	**Other**	**Total**
1	21.3	17.8	58.1	2.8	100.0
2	32.7	18.1	45.6	3.6	100.0
3	41.7	17.5	35.5	5.3	100.0
4	49.7	16.1	29.3	4.9	100.0
5	55.3	17.3	22.6	4.7	100.0
6	72.1	13.8	14.1	*NA*	100.0
7+	72.6	18.9	8.4	*NA*	100.0
Total	**33.9**	**17.6**	**44.9**	**3.7**	**100.0**

Sources: American Housing Survey, Berkshire Research.

7. Do SFR compete with apartments?

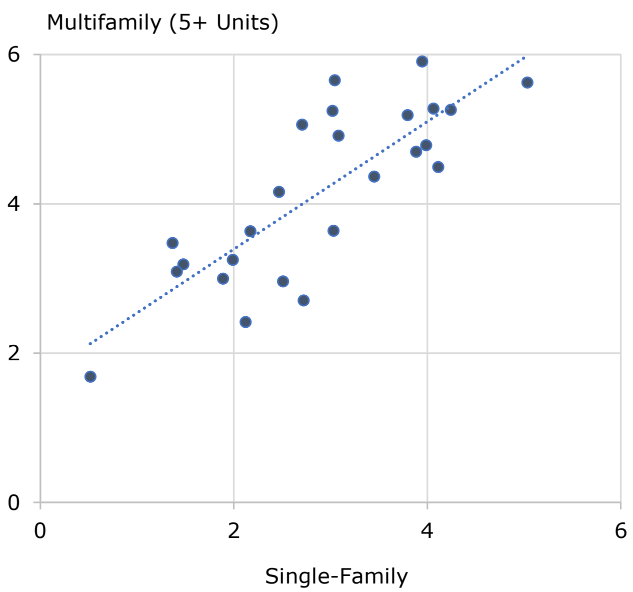
While SFR and apartments do appeal to different age demographics and household sizes, there is a tangible overlap between the two segments in terms of demand they end up capturing. About 30% of renters under the age of 35 and households with one to three people live in single-family homes while about 40% of renters age 35-64 and 25% of renter households with four people live in apartments. In other words, the two segments can and often do compete for significant portions of rental demand. The degree to which SFR and apartments compete does vary across markets, however. The higher the share of rental demand already captured by single-family homes in a market the greater the competitive pressure on apartment demand and vice versa.

Another reason SFR competes with apartments is that while each segment does operate under its own set of real estate fundamentals, both are closely linked to the broader housing market dynamics and share common drivers such as relative affordability of home-buying or household income.

As the chart below shows, rents in the two segments are closely connected across markets. Over the last five years, metro areas with stronger growth in single-family rents also experienced stronger growth in apartment rents and vice versa–with over 80% correlation between the two segments across metro areas with reported data. The chart also shows that during this period apartment rents grew notably faster relative to single-family rents in all these markets.

Considering that SFR and apartment properties share and directly compete for a significant portion of demand, they also impact each other from the supply side. As a result, market analysis of apartment fundamentals will not be complete without understanding the potential impact of the single-family segment and vice versa. Further research shows, for example, that in a market where *combined* SFR and apartment supply is too high relative to the overall number of rental households, both segments are likely to have elevated vacancy rates and vice versa.

Average Annual Change in Rent*, %
2014-2019

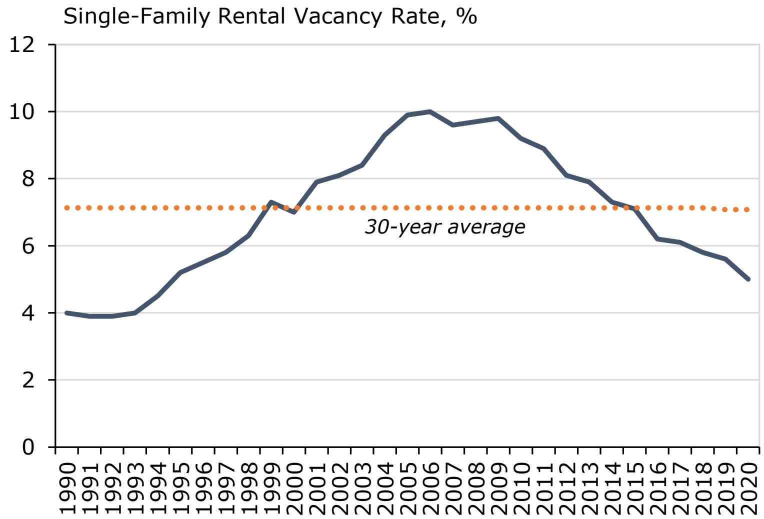


** contract monthly rent including utilities*
Sources: American Community Survey, Berkshire Research.

8. What is the current SFR demand/supply balance?

The SFR segment remains extremely tight by historical standards. As the chart below shows, SFR vacancy rates dropped to 5% in 2020, the lowest level since the early

1990s and about 200 basis points below the long-term historical average. This implies a SFR supply shortage of over 300,000 units, a deficit that would take years to close through new SFR construction at the current pace.



Sources: Bureau of the Census, Berkshire Research.

The aggregate SFR supply shortage is only part of the story, however. There is a major disconnect between the current distribution of renter households by size relative to the distribution of existing rental inventory by the number of bedrooms. As of 2019, renter households with four or more people accounted for 19% of the total whereas rental units with four or more bedrooms accounted for about 8%. There also appears to be a relative shortage of studios and one-bedroom units relative to the number of single-person renters, a disconnect that multifamily investors and developers should consider. The current distribution of the rental inventory by the number of bedrooms relative to the composition of underlying demand makes the existing SFR supply deficit even more severe.

Persons per Household	% Total	Bedrooms per Unit	% Total
1	38.1	0-1	28.5
2	27.9	2	39.4
3	15.0	3	24.2
4+	19.1	4+	7.9
Total	**100.0**	**Total**	**100.0**

Sources: American Housing Survey, Berkshire Research.

9. How do SFR and apartments compare in terms of recent operational performance?

The only consistent sources for such comparisons for now are quarterly same-store operational results reported by publicly traded real estate investment trusts (REITs) that own such assets. The table below compares average changes in same-store revenues, operational expenses, and net operating income (NOI) for seven major apartment REITs[1] and two single-family rental REITs: American Homes 4 Rent (AMH) and Invitation Homes (INVH).

Operational performance of SFR properties has benefited from the suburban shift that has accelerated last year due to the pandemic. For the calendar year 2020, SFR REITs reported an average revenue increase of 2.8% compared to an average decline of 1.7% for apartments. The difference between the two sectors was even more pronounced when comparing NOI changes due to slower increase in operating expenses for SFR properties.

	Same-Store Change, %			
	2020 / 2019		Q4 2020 / Q4 2019	
Indicator	**Apartments**	**SFR**	**Apartments**	**SFR**
Revenue	-1.7	2.8	-5.2	2.8
Expenses	3.3	2.7	5.8	0.9
NOI	-3.8	2.9	-9.7	3.8

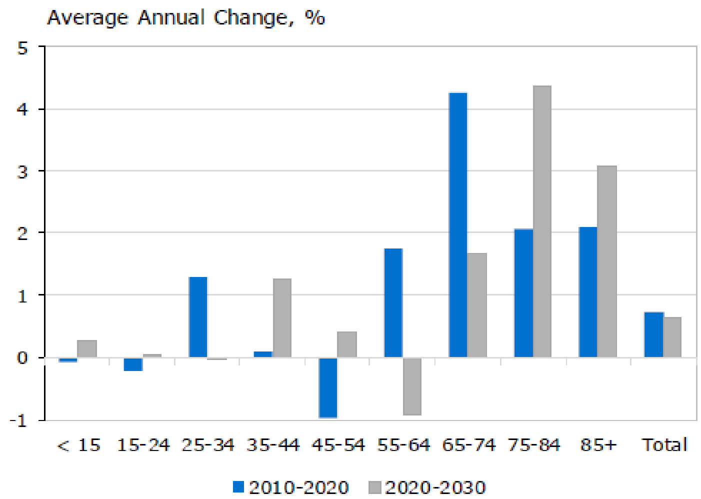
Sources: Quarterly Earnings Press Releases, Berkshire Research.

10. How will changing age demographics impact SFR demand going forward?

The shifting age composition of the U.S. population should benefit SFR demand in this decade more as compared to the last one. As discussed earlier, household cohorts with higher propensity to rent single-family (as compared to apartments) fall within 35-64 years of age. The latest projections indicate that in contrast to the last decade (2010-2020), there will be much stronger growth in population age 35-44 (accelerating to over 1% per year) and 45-54 (turning positive). At the same time, growth in population age 55-64 is expected to turn negative but this decline will be more than offset by the two other age groups.

In total, population age 35-64 should increase by 360,000 per year in this decade as compared to about 220,000 per year from 2010-2020. Moreover, in this decade, growth in the 36-64 age range will be driven primarily by households age 35-44 (who are more likely to rent) as compared to households age 55-64 the last decade. From a purely demographic perspective, the shifting age composition in this decade will also benefit SFR demand more than multifamily which will face a headwind of a slight decline in population age 25-34 (prime renter cohort).

[1] The list includes the following REITs: Apartment Income, Avalon Bay, Camden Property Trust, Equity Residential, Essex Property Trust, Mid-America Apartments, and United Dominion Trust.



Sources: Bureau of the Census, Berkshire Research.

Disclosures

The opinions expressed herein represent the current, good faith views of Berkshire at the time of publication and are provided for limited purposes. The information presented in this paper has been developed internally and/or obtained from sources believed to be reliable; however, Berkshire does not guarantee the accuracy, adequacy or completeness of such information. Predictions, opinions, classifications, use of common industry terms, and other information contained in this article are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Berkshire assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

This material is for informational purposes only. It is not intended to, and does not constitute financial advice, investment management services, an offer of financial products or to enter into any contract or investment agreement in respect to any product offered by Berkshire and shall not be considered as an offer or solicitation with respect to any product, security, or service in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or unauthorized or otherwise restricted or prohibited.

Berkshire provides investment management services to advisory clients that invest in both the multifamily housing and single-family housing sector. In respect of its investment management services, Berkshire may receive performance-based compensation from such advisory clients. Accordingly, Berkshire may financially benefit from the appreciation of both multifamily housing units and single-family housing rentals.