Multi Housing Advisors

RISE OF SINGLE-FAMILY RENTALS FILLS MULTIFAMILY SUPPLY GAP

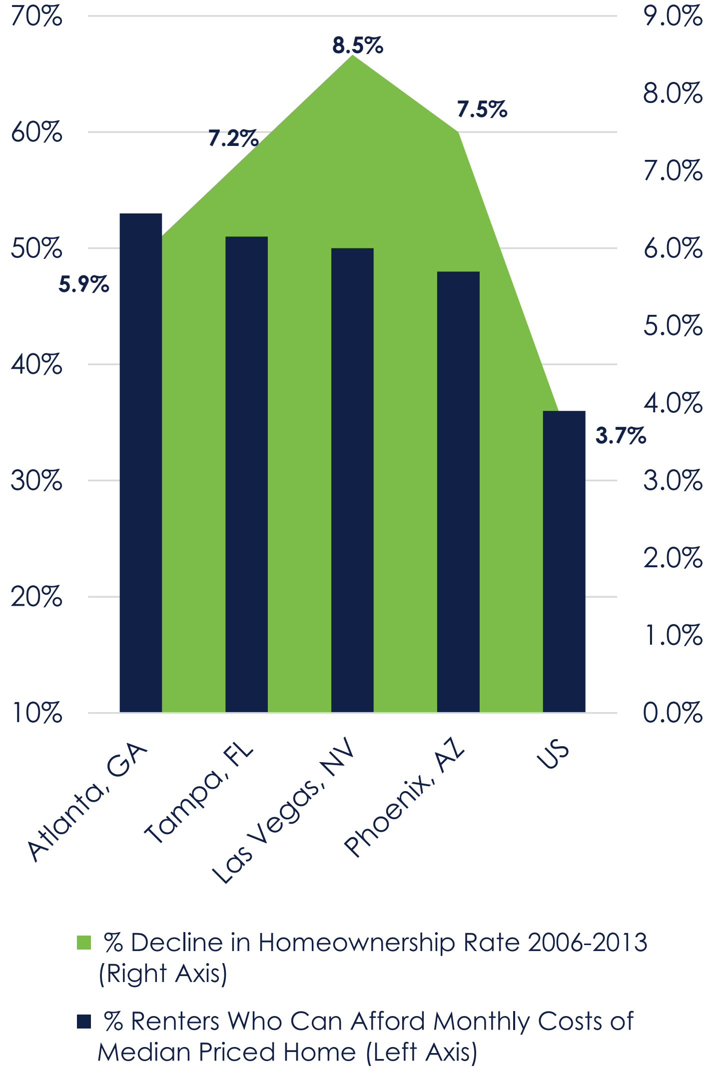
SHADOW RENTAL MARKETS: MULTIFAMILY'S THREAT OR ALLY?

The shadow rental market garnered significant attention during the recession because of its impact on multifamily rental rates. The glut of foreclosed homeownership units available for lease depressed rents at conventional rental properties due to increased competition. However, the role that single-family home rentals plays has dramatically shifted with the recovery of the economy and the housing market. Within the past few years, **this once encroaching source of rental supply is now considered necessary to keep up with growing rental demand**. This trend is particularly important to follow in the Sun Belt region, which experienced high rates of vacant or distressed single-family homes.

The Joint Center for Housing Studies (JCHS) of Harvard University recently published their 2015 State of the Nation's Housing study, which reports that historically, single-family homes have supported approximately 30 percent of renter households. **Its share of the rental market, however, has increased to approximately 35 percent, or nearly 15 million households nationwide.** On the investment side, single-family home rentals remain relevant as REITs are stepping into the single-family home rental space while institutional investors are taking a step back.

Given these shifts, are single-family home rentals taking too big of a bite out of the multifamily market? JCHS' study indicates that they are not; **single-family home rentals are merely picking up the deficit in supply**, as multifamily construction is not currently keeping up with rental demand nationwide.

DECLINING HOMEOWNERSHIP RATES DESPITE AFFORDABILITY



Source: JCHS, 2013 ACS, Freddie Mac, Primary Mortgage Market Survey, NAR, MHA

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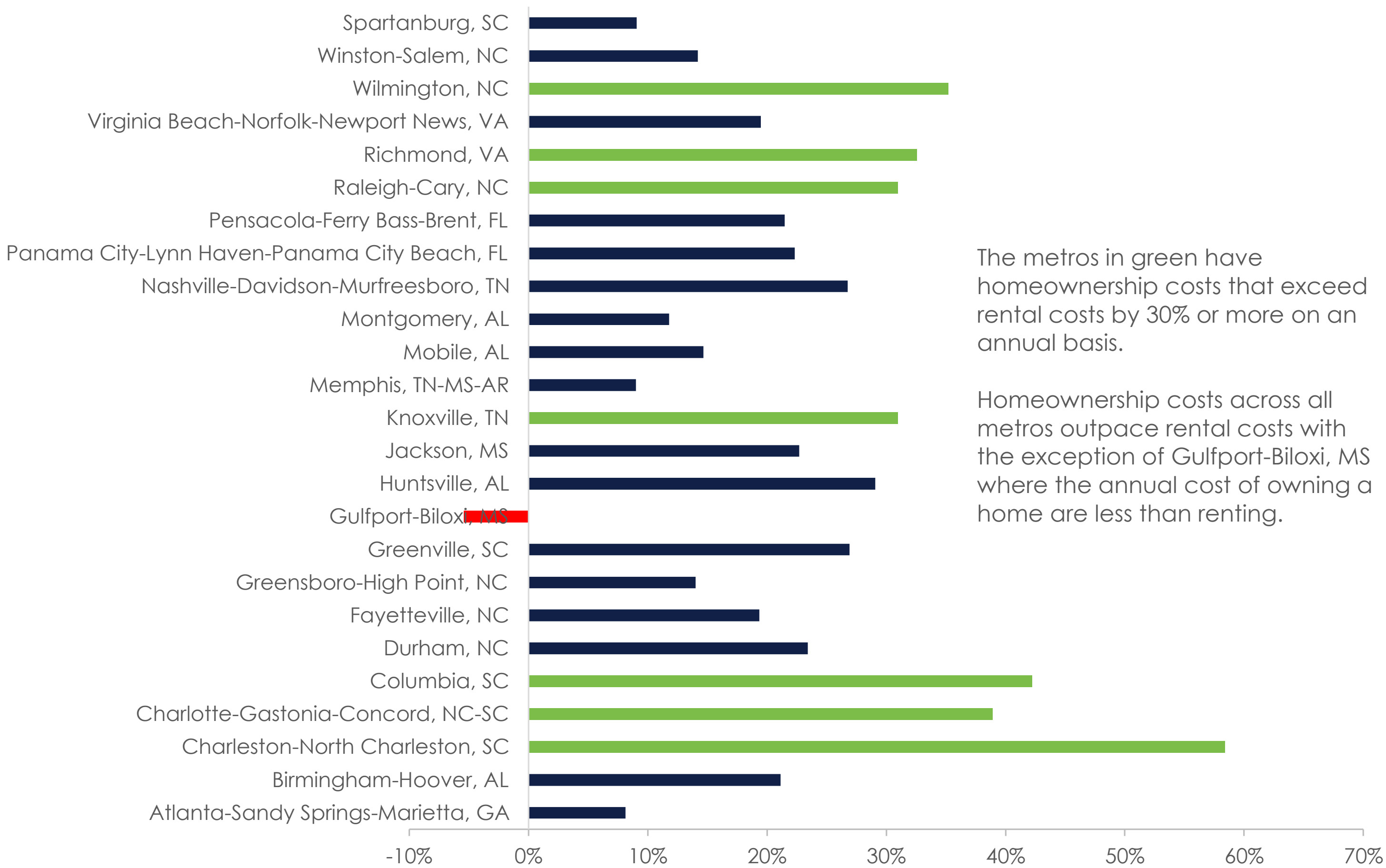
HOMEOWNERSHIP LIMITATIONS: BUY VS RENT ANALYSIS ACROSS SOUTHEAST

Why are homeownership rates declining despite the fact that housing prices decreased post-recession? The following is MHA Research's analysis of homeownership affordability in Southeast markets when compared to rental affordability. The analysis takes into account a five percent down payment, closing costs, real estate taxes, annual interest, mortgage insurance, homeowner's insurance, tax savings, renter's insurance, and housing maintenance and repairs costs. The source for median home price is from the National Association of Realtors (NAR) and current median rents for each market were provided via REIS as of first quarter 2015.

When taking into account the monthly costs of owning a home, renting in the majority of Southeast markets remains a compelling option from a financial standpoint. As a result, homeownership remains a limited threat to multifamily rentals in the current market. Although a significant portion of the renter population can afford to purchase a home in many markets, homeownership has not increased for a variety of reasons: memories of the recession, lack of wage growth, later marriages among Millennials, persistent student loan debt, stricter qualification standards, and the down payment barrier to entry.

BUY VS. RENT: HOUSING AFFORDABILITY IN SOUTHEAST MARKETS



The metros in green have homeownership costs that exceed rental costs by 30% or more on an annual basis.

Homeownership costs across all metros outpace rental costs with the exception of Gulfport-Biloxi, MS where the annual cost of owning a home are less than renting.

Source: National Association of Realtors, REIS, Multi Housing Advisors, 7/2015

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LACK OF SUPPLY DESPITE CONSTRUCTION

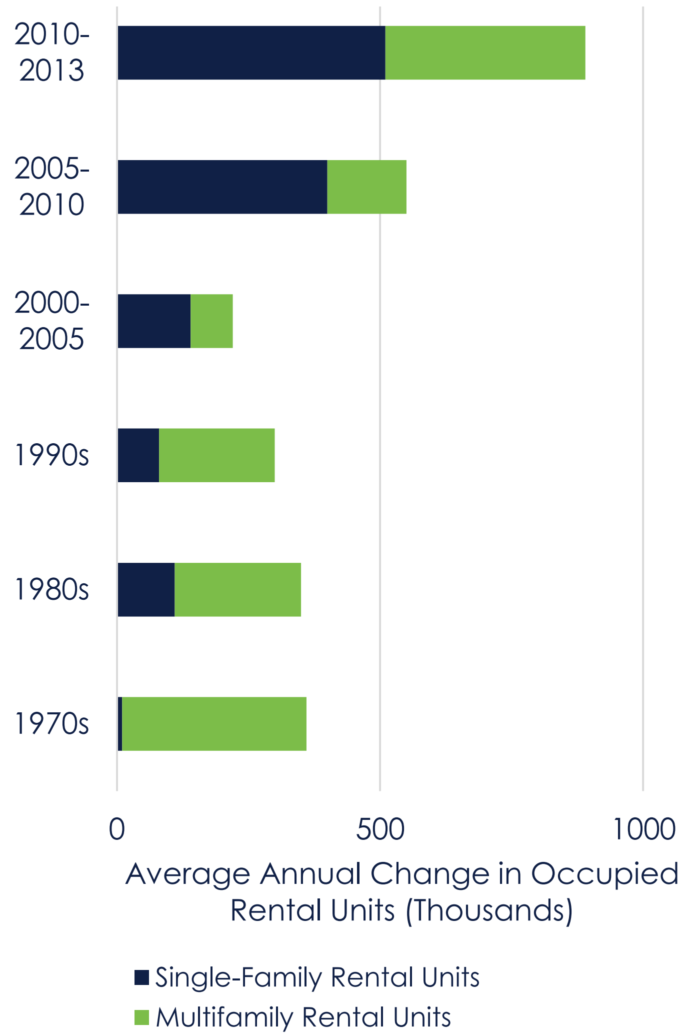
REIS estimates that over 240,000 new construction multifamily rental units will be added in 2015 nationwide. Despite all of the construction underway, a confluence of well-reported factors make room for both single-family and multifamily rentals to thrive. Chief among these reasons is the sheer increase in the number of renter households. JCHS reports that annual renter household growth from 2010 to 2014 has outpaced that of any prior decade and it is fueled by Millennials' and Baby Boomers' penchant for renting.

As a result, vacancy rates have decreased; rents are rising; and, the average multifamily NOI increased by 9% in 2014 compared to the 6% prior annual average (according to JCHS' report and The National Council of Real Estate Investment Fiduciaries).

CLICK ON THE ARTICLES BELOW TO READ MORE

- *Single-Family Rental Market Sizzles in the South*
- *The State of the Nation's Housing 2015*
- *Can Apartment Supply and Demand Keep Pace?*
- *Migration to the Suburbs and Sun Belt Picks Up*

UNPRECEDENTED SINGLE-FAMILY RENTAL GROWTH SINCE 2010



Source: JCHS, Census, ACS, MHA