NATIONAL MULTIFAMILY HOUSING COUNCIL

RESEARCH NOTES NEWSLETTER

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An Overview of Single-Family Rentals

During the COVID-19 pandemic, apartment demand shifted away from smaller units in more expensive coastal markets towards larger units in more affordable, secondary markets, as people sheltered-in-place and pivoted to remote work and learning.

In the fourth quarter of 2020, for instance, rents for professionally managed studio apartments tracked by RealPage were down 7.9 percent from the prior year, while rents for three-bedroom apartments were up 1.1 percent year over year. These large units were the only unit type to consistently record positive rent growth throughout the pandemic.

Meanwhile, as demand for larger living spaces grew, it also fueled single-family home purchases, driving single-family, for-sale home prices to climb at record rates given the market's relatively limited inventory. This confluence of factors—a shift in rental demand toward larger spaces along with surging for-sale, single-family home prices—naturally calls for a look at the single-family rental space, especially as the sector draws the attention of a growing number of institutional investors.

In this *Research Notes*, we first examine how households living in single-family rentals differ from occupants of other housing types, primarily those in single-family owned units and renters in apartments (5+ units). We then investigate the limited but growing presence of institutional capital within the single-family rental space.

Single-Family Rentals and Their Occupants Account for More Than One-Third of the Market

Fourteen million U.S. households lived in a rented single-family unit in 2019, according to the American Community Survey (ACS), accounting for one-third (33 percent) of all renter households. Those in apartments (5+ units), in comparison, made up 45 percent of U.S. renter households.

Yet, single-family rentals housed a larger share of the U.S. renter *population* (41 percent in 2019) compared to apartments (37 percent). The reason for this is household size; the average single-family rental household contained 2.9 people, while the average apartment household contained just 1.9.

Single-Family Homeowners More Likely to Be in Relationships, Married

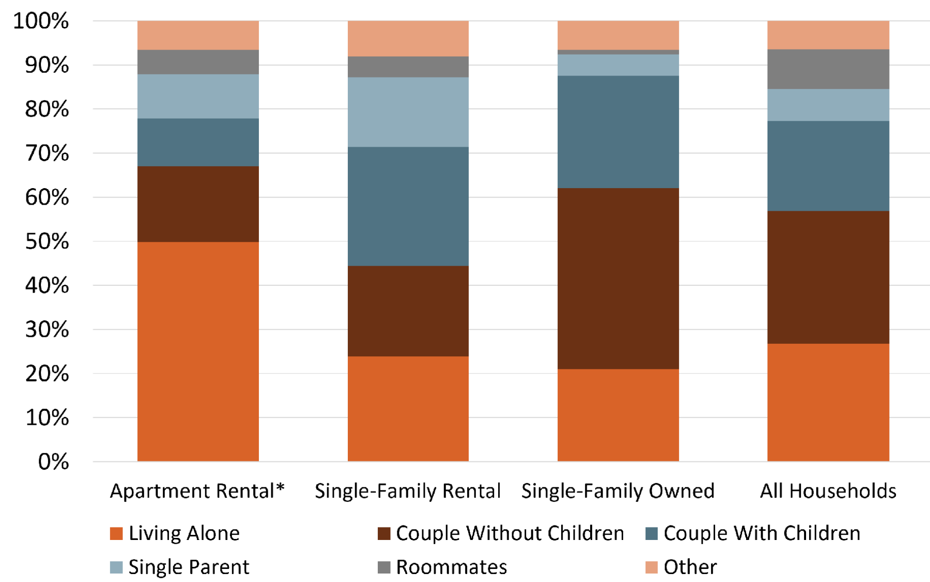
Couples (either married or unmarried) made up approximately 20 percent of single-family renter households, according to the 2019 ACS. While this was slightly higher than the 17 percent of apartment households that were coupled up, it was significantly lower than the 41 percent of single-family owner households that reported being couples (see Figure 1).

However, coupled up households in rental units were less likely to be married compared with their homeowner counterparts. Nearly one-quarter (23 percent) of single-family renter couples and 29 percent of couples in apartment households were unmarried, while that was the case for just 7 percent of single-family owner couples.

These stats suggest a strong association between relationship status, and especially more serious relationships (marriage), and single-family homeownership. Conversely, couples seem to live in apartment homes and single-family rental homes at about the same rate and are more likely to be unmarried.

FIGURE 1

Living Arrangement



Source: NMHC tabulations of 2019 American Community Survey microdata. *5+ units

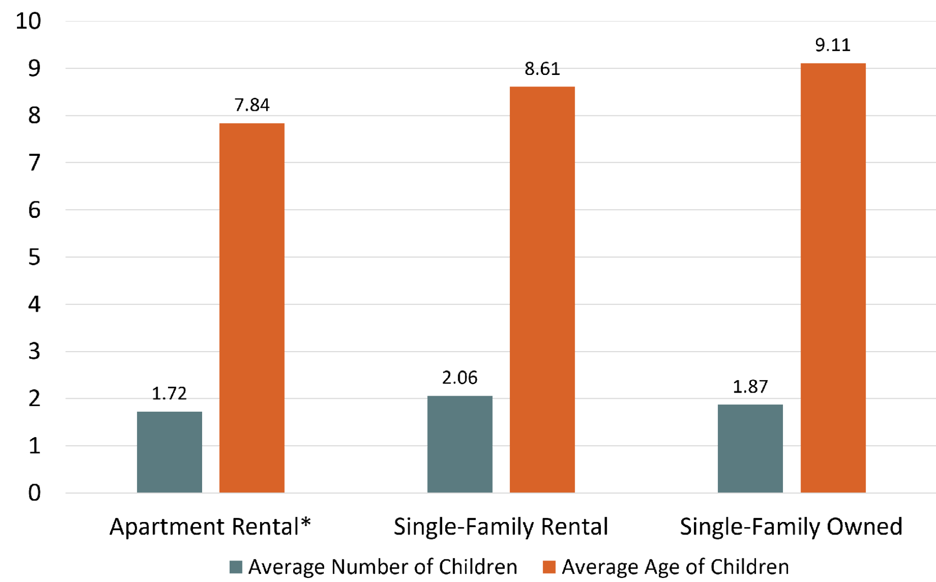
Single-Family Households Tend to Have More, Older Children

Yet, where households in single-family rentals differ rather significantly from their counterparts in apartments is in their share of households with children. Forty-three percent of single-family renter households had children present in 2019, compared to 30 percent of single-family owner households and just 21 percent of apartment households.

These figures support the notion that households with children typically want more space, supporting demand for single-family homes in general. However, these data alone cannot explain why households with children make up a larger share of single-family rental households compared to single-family owned. One likely explanation is that a disproportionate share of single-parent households live in single-family rentals. These households typically have just one income, and, as we illustrate in the following section, homeownership is associated with higher incomes.

Moreover, as illustrated in Figure 2, households with children living in single-family homes, rented or owned, tended to have more children and slightly older children, on average, than those apartment households that had children present.

FIGURE 2
Households with Children



Source: NMHC tabulations of 2019 American Community Survey microdata. *5+ units

Higher Incomes Are Associated with Homeownership

Not everyone who wants to live in a single-family home can afford to buy, which is one reason why homeowners tend to have higher incomes than renters. In 2019, the median single-family owner household had an income of $88,433 compared to just $51,776 for the median single-family renter household and $41,420 for the median apartment household, adjusted to 2020 dollars.

This association between income and homeownership also remains after controlling for both age and living arrangement. In every age and living arrangement combination illustrated in Figure 3, the median income of single-family owner households was higher than that of both single-family renter households and apartment renter households.

FIGURE 3

Median Household Income by Age and Living Arrangement (2020 Dollars)

Age of Householder and Living Arrangement	Apartment Rental*	Single-Family Rental	Single-Family Owned
Living Alone			
18-24	$20,455	$23,319	$34,569
25-34	$43,978	$36,819	$54,206
35-44	$47,558	$36,819	$61,365
45-54	$35,796	$32,728	$58,297
55+	$20,046	$21,989	$36,819
Couple without Children			
18-24	$49,092	$53,183	$71,592
25-34	$88,979	$78,752	$109,434
35-44	$91,945	$80,797	$122,525
45-54	$75,683	$79,672	$124,775
55+	$52,876	$61,365	$92,538
Couple with Children			
18-24	$40,910	$42,955	$61,365
25-34	$56,354	$61,365	$97,161
35-44	$68,524	$74,661	$123,548
45-54	$65,456	$82,843	$139,708
55+	$60,342	$71,736	$116,593
Single Parent			
18-24	$18,409	$25,569	$46,024
25-34	$25,569	$26,591	$46,024
35-44	$32,217	$34,773	$58,092
45-54	$37,739	$42,955	$69,547
55+,	$35,285	$43,569	$67,297

Source: NMHC tabulations of 2019 American Community Survey microdata. *5+ units

Higher Housing Costs Associated with Lower Rates of Homeownership

Of course, in any conversation about affordability, we must consider not just income, but housing costs as well. Single-family home prices have risen dramatically in recent years.

According to the Federal Housing Finance Agency (FHFA) home price index, for-sale single-family home prices rose an average of 3.6 percent over the past 20 years, 5.1 percent over the past 20 years and 6.4 percent over the past five years. Meanwhile, the median household income increased an average of 0.5 percent annually over the past 20 years, 1.5 percent over the past 10 years and 3.4 percent over the past five years, according to the Current Population Survey.

Given this disparity, some households interested in purchasing a home may have been priced out of the market and may have turned to substitutes, such as single-family rentals.

FIGURE 4

Real Home Price Index

Source: U.S. Bureau of Labor Statistics; Federal Housing Finance Agency

Institutional Investment in Single-Family Rentals Grows

A unique feature of the single-family rental space is that the vast majority of units are owned by individual investors. According to data from the 2018 Rental Housing Finance Survey, for example, individual investors owned approximately 73 percent of single-unit rentals in 2018, compared to 23 percent of apartment homes in smaller properties (5 to 49 units) and just 7 percent of apartment homes in properties with 50 or more units. In that same vein, a recent Altus Group study estimated that institutional investors (firms with portfolios of over 2,000 properties), despite controlling over half (50 to 55 percent) of all U.S. apartment units, owned between just 2.1 percent and 2.5 percent of all single-family rentals.

While the figures above illustrate that institutional ownership makes up a relatively small portion of single-family rentals, particularly when compared to apartment rentals, it is a share that is growing. There have been a number of high-profile acquisitions and joint ventures within the for-rent single-family space in the past year alone.

For example, in January, Pretium and Ares Management Corp. acquired Front Yard Residential Corp. for $2.5 billion. In March, Transcendent Investment Management and Electra America formed a joint venture to develop 15,000 new single-family units over the next five years and PCCP formed a $1 billion joint venture to invest in built-for-rent communities in primary and secondary markets. In April, Crescent Communities launched a single-family built-for-rent brand for its new development across several Sun Belt markets and Atlas Real Estate and DivcoWest formed a $1 billion joint venture to acquire and renovate single-family rentals. Blackstone acquired the single-family rental company Home Partners of America for $6 billion in June, and JLL Income Property Trust invested $560 million to acquire stake in a single-family rental portfolio in August.

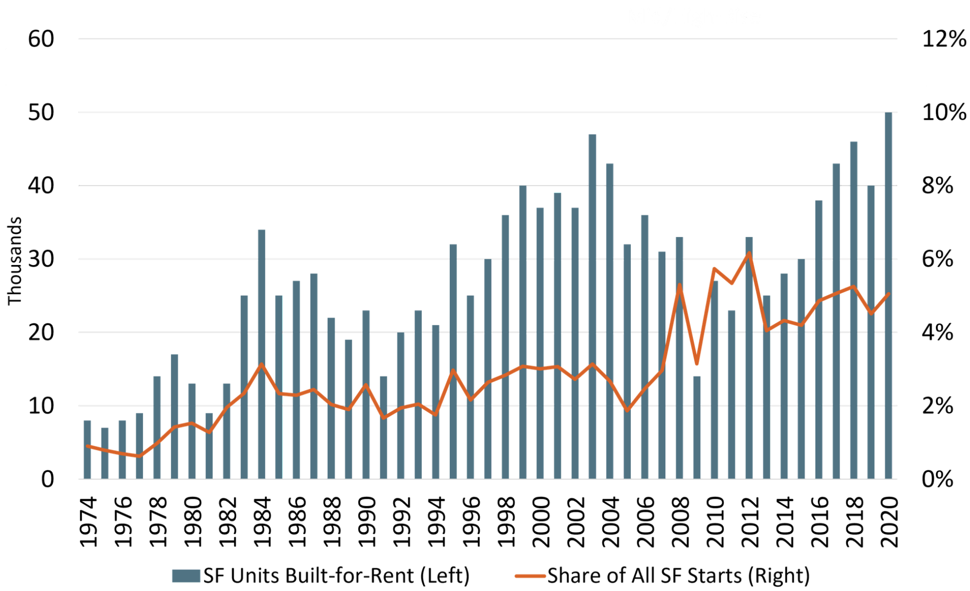
Single-Family Built-for-Rent Gains Attention

A growing subset of the single-family rental space, where institutional investors are playing a larger role, are communities of single-family homes that are known as "built-for-rent" (BFR). According to a recent report from the Urban Land Institute, built-for-rent communities are approached and operated similarly in some ways as an investment-grade apartment community, with consistent branding, housing quality, and vintage—only the units are single-family homes.

While single-family built-for-rent represent a small fraction of all single-family homes built, the market share is growing. As illustrated in Figure 5, single-family built-for-rent homes represented an average of approximately 2 percent of all single-family starts from 1974 to 2007. From 2008 to 2020, however, this average share rose noticeably to 5 percent of single-family starts per year. When looking at the universe of all housing units built specifically for rent, an average of 7 percent of annual starts were single-family between 1974 and 2007; this share rose to 11 percent from 2008 to 2020.

FIGURE 5

Single-Family Built-for-Rent Starts



Source: U.S. Census Bureau, New Residential Construction

Conclusion

Our analysis found that households in single-family homes are more likely to have children present than those living in multifamily units. This is consistent with the idea that family households generally desire more space, which single-family homes can offer. What is somewhat unclear, however, is why households in single-family rentals seem to have even higher rates of children present than those in single-family owned homes.

Given the financial barriers to homeownership, it's unsurprising we also found a strong positive relationship between household income and single-family homeownership, even after controlling for age and living arrangement. Given that income growth has lagged home prices in recent years, we would expect a greater number of households to be priced out of homeownership, which translates to increased demand for single-family rentals. That is likely another factor driving the increase in the (still very small) share of institutional investment within the single-family rental space, as well as a growing number of built-for-rent developments.

However, we are wont to believe that this growth of the single-family rental market comes at any expense to apartments. There is a high degree of diversity among American households—whether it be in terms of age, income, living arrangement or other unobserved preferences—which translates into demand for a wide variety of housing products. The apartment market’s post-COVID-19 rapid rent growth, for example, is testament to the strength of the underlying demand for apartments, as well as the market’s limited supply. This tightness in the housing market illustrates that, after decades of underproduction, we need to build more housing of all types.

About Research Notes

Published quarterly, Research Notes offers exclusive, in-depth analysis from NMHC's research team on topics of special interest to apartment industry professionals, from the demographics behind apartment demand to effect of changing economic conditions on the multifamily industry.

Questions

Questions or comments on Research Notes should be directed to Claire Gray, NMHC's Research Analyst, at cgray@nmhc.org or 202/974-2330.

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