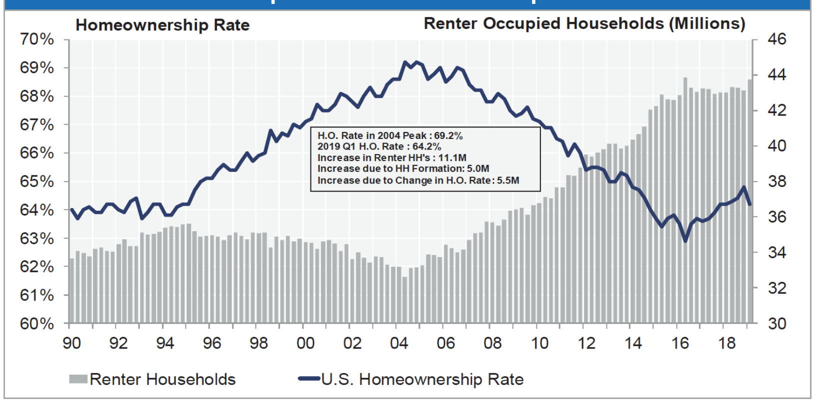
# PCCP MARKET COMMENTARY

**Third Quarter 2020**

## Renters by Choice:
## How Single Family for Rent Benefits from Changing Mindsets

Since our last quarterly update, there has been quite a bit of uncertainty for investors surrounding the state of the market, particularly the long-term financial impacts of COVID-19. Given the unique economic circumstances, we continue to branch out from our historical research to look at all aspects of American life for new angles and investment opportunities. Following the Great Recession, the American Dream of owning a home with a white picket fence has become, for many, less attainable and less desirable. Homeownership rates in the US have declined noticeably during this period, while demand for rental units has surged, with over 5 million new renters. This rental surge has continued despite the recent economic upswing, potentially signaling a longer-term trend in home buying decisions. Our research indicates that there is a growing "renters by choice" market, primarily made up of Millennials with expanding families, and Baby Boomers moving from homeownership to rentals. Economic factors and changes in attitude toward homeownership are causing these groups to look for affordable rental properties that are larger than the traditional 1- and 2-bedroom units offered by existing rental product. The result is increasing demand for a new and growing institutional asset class, purpose-built single family homes for rent (SFR). SFR is a distinct spot in the market that is seeing deep demand from users, but little supply and nascent institutional interest. We believe this space will continue to grow, and that we are well positioned to take advantage of this new and expanding opportunity.

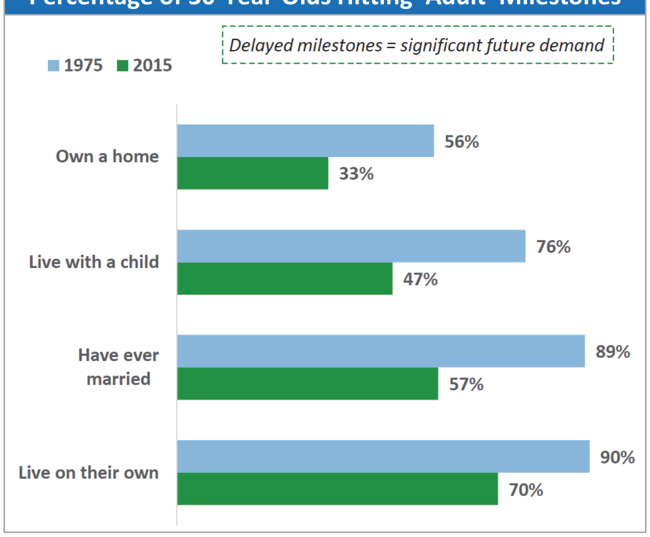
**Homeownership Rate and Renter Occupied Households**




*Source: U.S. Census Bureau (CPS/HVS); CoStar Portfolio Strategy* *As of 19Q1*

In the past, renters looking for larger rental units have primarily been served by "mom and pop" owned single family homes. Multifamily rental properties have traditionally offered primarily 1- and 2-bedroom units, and continue to do so, with only 11% of the current multifamily rental stock having more than 3 bedrooms *(John Burns, February 2019)*. When home foreclosures and consumer demand for single family home rentals increased following the Great Recession, a few large institutions began buying scatter-site homes out of foreclosure and renting them individually. The strategy has been successful, with the two largest SFR institutions, Invitation Homes (INVH) and American Home 4 Rent (AMH), seeing an average occupancy of 95% in their portfolios (*Green Street*). As a result, some groups have begun to create purpose-built SFR communities to capitalize on this increased demand. The typical purpose-built SFR community features several single-family detached homes, each with attached garages and individual backyards, and most feature amenities such as a pool and clubhouse. Homes within the community typically range from 1,200 to 2,200 square feet with 2-4 bedrooms. These SFR communities appeal to a wide range of individuals, particularly Millennials (35 and below) and Baby Boomers (55+).

**Percentage of 30-Year-Olds Hitting 'Adult' Milestones**




*Source: Freddie Mac/Invitation Homes*

Many Millennials are forming families and aging out of traditional 1- and 2-bedroom multifamily rentals but are not moving to home ownership. Compared to earlier generations, the 25-34-year-old Millennials are delaying adult milestones, like having children and owning a home. In 2015, only 33% of 30-year old's owned their own home and only 47% had children, as compared to 1975, when over 56% of 30-year old's owned homes and 76% had children.

Millennials are waiting to put down roots and financially commit to a home and are instead becoming renters by choice. As the 30-year old age bracket expands their families without purchasing homes, there is pent up demand for single family rental product. SFR offers these millennials an affordable opportunity to live in a more spacious home that accommodates their lifestyle but does not require them to make the financial commitment to homeownership before they are ready.

In recent years, an increasing number of Baby Boomers have become renters as well, with a 44% increase in renters aged 65-74 years old and a 33% increase in renters aged 60-64 years old since 2010 *(The Concord Group – study for PCCP, August 2019).* Many of these Baby Boomers were homeowners prior to the Great Recession but due to the financial impacts of the crisis, were forced to become renters. The appeal of purpose-built single family for rent products for Baby Boomers is twofold: (i) for those whose financial status was negatively impacted following the Great Recession, they can retain a home-owner lifestyle with reduced credit or financial resources, and (ii) for those who have owned a home for years, but are tired of the upkeep, they can opt for a "lock and leave", maintenance-free lifestyle. Given the financial impacts on savings, coupled with the fact that this age bracket is getting older, it is likely these renters will not become homeowners again. For Baby Boomers going from homeowners to renters, SFR fills a demand that is not currently met by traditional multifamily product.

In addition to (and related to) these demographic and economic factors driving up the rental market, there has been a notable mindset shift with regards to owning a home. As this most recent economic upcycle strengthened between 2015 and 2019, one would have expected renters' likelihood of owning a home to increase. Instead, the percentage of U.S. renters that said they were "extremely likely" to own a home decreased dramatically, from 35% to 24% over the same period. Further, nearly 39% of renters surveyed in April 2019 said they were very unlikely to own a home in the future, 10% higher than in 2015 (*Invitation Homes. Ready to Run. Investor Presentation. Published Oct-19).* The factors driving this shift in mentality toward rental product are unlikely to be resolved in the short term, and include:

- *Cost*: Home ownership is expensive, and despite economic growth, many are taking on more debt, e.g. student loans.
- *Uncertain futures*: Potential for change in job or family situation, especially among Millennials and Baby Boomers, makes renters hesitant to put down roots and less likely to buy a home.
- *Lifestyle preferences*: Fixed income or budget-conscious consumers prefer the fixed costs and decreased responsibility of renting. Many, especially Millennials, value their freedom and mobility and feel tied down by home ownership.

Single Family for Rent communities are also well positioned given the impacts of COVID-19. SFR communities allow residents to practice social distancing through less densely populated living arrangements with fewer common areas, individual attached garages, and access to outdoor space through private backyards. In April 2020, INVH and AMH, the two largest SFR REITS, reported historically high occupancy rates and record leasing months. Despite publicly stating that there were no (and will continue not to be) increases in rent for renewals during COVID-19, INVH and AMH both reported 3%+ year over year rent growth in April 2020 compared to the national apartment average (reported by Green Street Advisors) of less than 1%.

Overall, Single Family for Rent is uniquely positioned to take advantage of a change in rentership dynamics. In the case of purpose-built SFR communities, we believe that the value proposition to the renter by choice is even stronger, by combining single family living with Class A apartment benefits such as common area fitness centers and pools and on-site management. The rise in the Millennial population hitting adult milestones, the increase in Baby Boomers becoming renters, and an overall decrease in homeownership rates all combine to change housing fundamentals in the coming years. With PCCP's knowledge and exploration of the space, we believe that we have a competitive advantage of being an early adopter of the product type and are positioned to be a participant in the growing SFR space.

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**Bryan Thornton**
bthornton@pccpllc.com
(415) 732-7649

**Greg Eberhardt**
geberhardt@pccpllc.com
(310) 414-2004

**Brian Heafey**
bheafey@pccpllc.com
(415) 732-7548

**K.C. Kriegel**
kkriegel@pccpllc.com
(646) 308-2102