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SINGLE-FAMILY RENTALS:

MYTHS, FACTS, AND
INVESTMENT OPPORTUNITIES





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In his *Moral Letters to Lucilius*, Stoic philosopher Seneca explains, “We are often more frightened than hurt; and suffer more from imagination than from reality.” Real estate investors have been guilty of this trait for decades, largely because of the imperfect information world. Perceptions of risk have funneled capital to a narrow band of familiar cities and property types, often to the detriment of portfolio performance and likely also to the detriment of the economic well-being of excluded asset classes.

New data from market research providers, longer track records of public REITs, and expanded benchmarks from organizations such as NCREIF have dramatically improved this challenge of perception in recent years. Among emerging real estate sectors, perhaps the greatest enthusiasm, and greatest controversy, relates to single-family rentals (SFR). The enthusiasm is justified, but we recognize the legitimate sensitivity shared by many investors around housing regulations, “headline risk,” and overall societal effects of increased investor interest in low-density housing. A careful and agnostic examination of these issues suggests that, instead of being an overall contributor to housing unaffordability, thoughtful investor participation in the SFR market can provide a potent solution to many of today’s housing woes.



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This article seeks to replace broad generalizations around SFR (positive and negative) with data points and frameworks that investors can arm themselves with to make investment decisions. We discuss the social and regulatory environment, as well as our views on SFR’s role in mixed-asset portfolios.

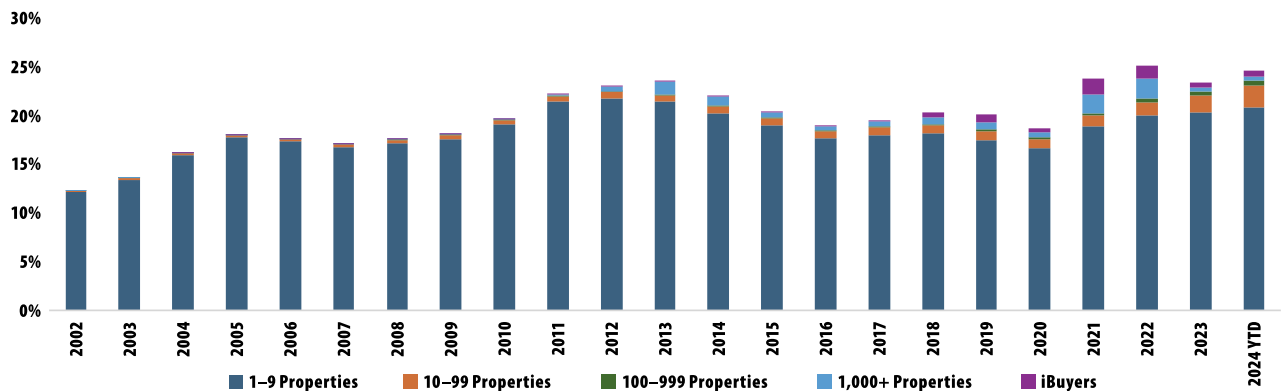
A Broader Set of Stakeholders

The roles of investment managers are usually well defined; however, investing in housing involves considering a wider range of stakeholders. It is worth discussing two key aspects of risk in this context: social risk and legislative risk.

Social risk, or “headline risk,” can be hard to quantify explicitly. In the case of SFR, this risk deals with the notion of corporations with billion- or trillion-dollar portfolios crowding out everyday Americans from the housing market. This narrative requires a more nuanced view.

First, it is worth noting the limited impact institutions have had on the for-sale housing market. Investors that own more than 1,000 units represented 0.4% of home purchases in 2024 (and 2.5% at their peak in 2022) compared with mom-and-pop investors, which represented many multiples of that percentage in the past year (Exhibit 1).

Exhibit 1: Investor Share of Single-Family Home Purchases, by Investor Size



Sources: MIM, John Burns Research and Consulting; 2Q2024

Some data points have made institutional ownership seem more prolific than it is, contributing to the perception problem. For example, a frequently cited study claimed that nearly 30% of Texas homes purchased in 2021 were by institutional investors, but the study defined institutional buyers as any corporation, company, or limited liability company (LLC) listed in ownership deeds, which assumes that small investors don't own their properties in LLCs. It is fair to acknowledge that the small number of institutional home purchases was made in a concentrated list of zip codes, producing an outsize impact. But the same study showed no difference between purchase prices of comparable assets across investors and owner-users.

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The data suggest that institutions, at worst, have had a negligible impact on the housing market. At best, however, institutions can be part of the solution to housing affordability. As an example of how institutions are bringing uncompetitive or obsolete homes back online, data from John Burns Research and Consulting shows that between 2022 and 2024, institutional investors reported an average renovation (capex) investment of \$26,000 per purchased home, with 10% of investors spending more than \$50,000 on renovations.

Additionally, institutional investors are now directly adding to the stock of single-family homes through the development of an emerging asset class: purpose-built SFR (discussed later in this article). This segment allows investors to provide affordable, larger-format homes that have been absent from the pipelines of traditional home builders.

Quantifying legislative risk can be similarly challenging to quantifying headline risk, but simple awareness of key issues can go a long way toward ensuring that perceptions are appropriately calibrated. In our view, three categories of legislation are pertinent to SFR investments. These include legislation aimed at (1) increasing the housing stock, (2) increasing housing affordability, and (3) restricting specific types of ownership. An example of category 1 is San Diego, which allows homeowners to convert extra space to rent-regulated housing units. An example of category 2 is down payment assistance legislation enacted by the Barack Obama administration after the global financial crisis. Category 2 also includes rent control. Category 3, if enacted, would clearly be negative for the SFR sector.

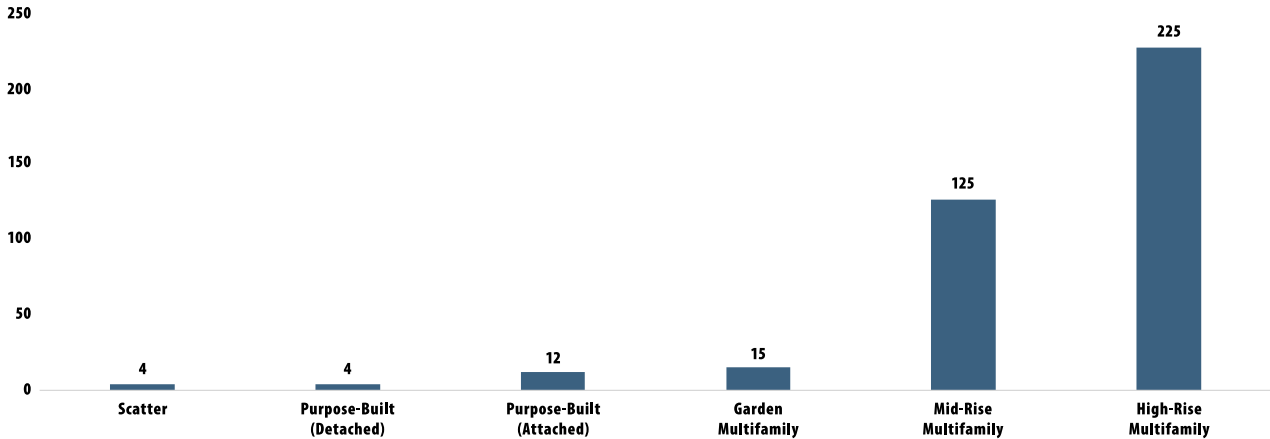
With the exception of rent control, we view these broadly as second-order effects with no clear negative or positive for SFR. These policies have the potential to increase supply (and potentially dampen rent growth) or shift demand from rentership to ownership, but they also have the potential to spur economic growth (which can boost rent growth). Rent control remains a risk but is one that is shared with traditional apartments and that residential investors understand.

Several policies restricting or taxing “corporate” ownership of SFR have been proposed at various levels of government over the past two years. Most failed to receive widespread support (especially considering it is not clear what would happen to all the single-family-home renters), and none are likely to succeed, but a few continue to make their way through legislative bodies. This form of regulation focuses on buyers of existing homes (as opposed to purpose-built owners), giving investors an option to diversify their portfolios against this risk.

Defining Trait: Density

The term *single-family rental* distinguishes the asset class from other residential sectors such as traditional apartment and manufactured housing, but SFR can be broken down into more granular components, each with defining traits. The most fundamental differentiator

Exhibit 2: Defining Trait—Density (Approximate Units per Acre)



Type	Description
Scatter	Consists of aggregated single-family homes originally built for sale that are uniformly branded, are professionally managed, and use a master leasing and operating platform but are not part of a single community. 1,250+ SF units.
Purpose-Built (Detached)	Contiguous communities that typically offer the largest and individually platted homes, usually containing three or more bedrooms and dedicated garages. Also referred to as “built-to-rent.” 1,250+ SF units.
Purpose-Built (Attached)	Similar to purpose-built (detached) in that these homes are nonstacked but may vary more in scale or density and have one or more shared walls. Sometimes referred to as “horizontal multifamily,” “townhomes,” or “cottages.” Built-for-rent attached homes typically have fewer bedrooms than detached-style communities or scattered homes and less access to yards or individual garages. 1,000+ SF units.
Garden Multifamily	Typically no more than four stories high, with multiple apartments per story and landscaped grounds surrounding them. 800–1,000 SF units.
Mid-Rise Multifamily	Also referred to in some regions as a “wrap” product for the configuration of a building wrapped around a pool or courtyard, mid-rise multifamily is typically five–ten stories on 2–10 acres with average of two bedrooms or fewer. Fewer than 900 SF units on average.
High-Rise Multifamily	Typically ten stories or higher on less than 3 acres with higher price points and average of two bedrooms or fewer. Fewer than 800 SF units on average.

Sources: MIM, NCREIF; 3Q2024. MIM approximation of density.

within rental housing alternatives, though, is density, and Exhibit 2 defines the various housing subsegments.

Because density is the defining trait of rental housing types, there is a relationship between housing types and the submarkets in which those subtypes are found.

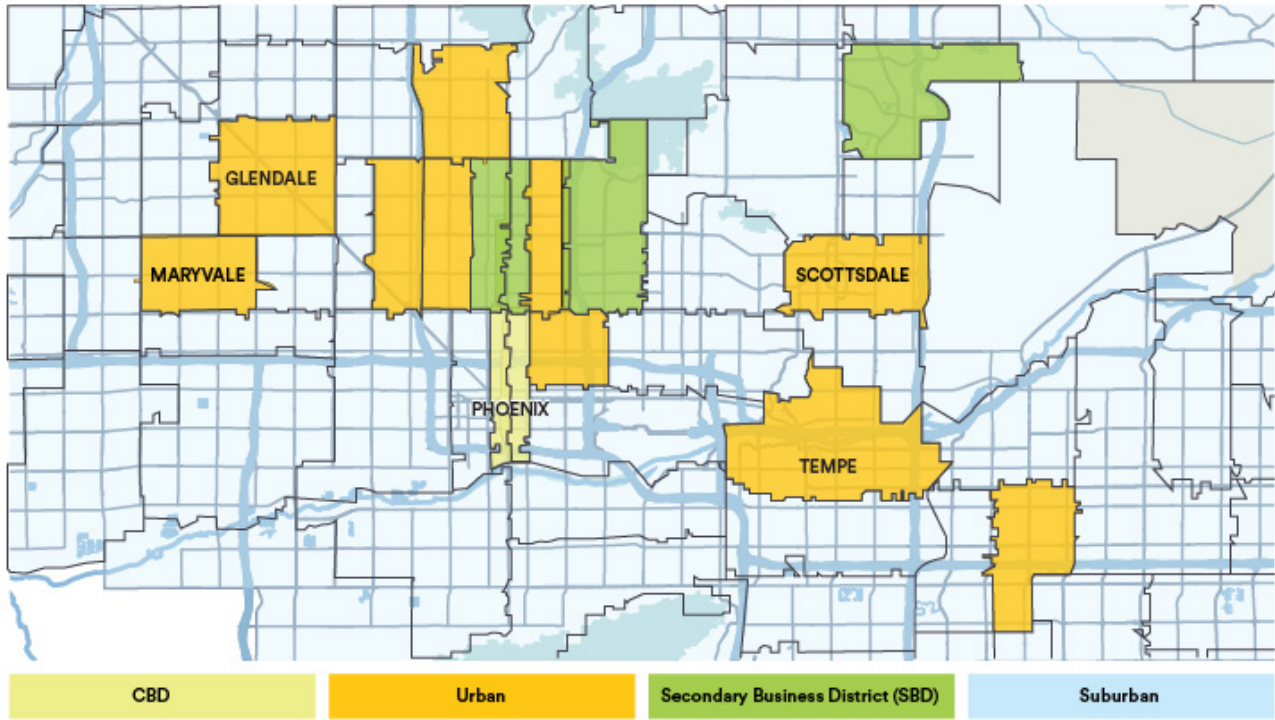
Location: Nodes Instead of Rings

Real estate investors have historically viewed cities as having a central business district (CBD) connected to outer suburbs by transportation routes. These highway loops create a simple model for understanding metropolitan organization: rings. “CBD” refers to the city, “inner ring” refers to high-value locations with immediate

adjacency to the CBD, “outer ring” refers to suburban locations, and “tertiary” refers to more sparsely populated locations on the fringe of development. These definitions, while convenient, are too simple to reflect the risks and opportunities that define housing opportunities.

Recognizing this complexity, NCREIF recently enhanced its benchmarking tools by categorizing every zip code in the US as CBD, urban, secondary business district (SBD), or suburban. These distinctions provide a framework for measuring emerging realities, for example, that a metropolitan area can have multiple business districts, a central downtown, and suburban neighborhoods with various levels of population density scattered throughout.

Exhibit 3: Phoenix Metropolitan Statistical Area Zip Code Designations



Sources: MIM, NCREIF; 3Q2024

Exhibit 3 reflects this evolution with a more contemporary take on submarket geographies developed by NCREIF and only recently available for analysis of residential markets.

The densest CBD and urban submarkets comprise mid-rise and high-rise products. Moving down the density spectrum, secondary business districts include attached purpose-built, garden, and mid-rise housing. Finally, detached purpose-built and scatter housing are located in low-density suburban submarkets.

Low-Density Housing in Institutional Portfolios

SFR currently makes up a small share of institutional investor portfolios. For example, the NCREIF Property Index includes more than 2,000 traditional apartment communities, compared with just under 100 purpose-built SFR communities. A “market weight” to SFR may represent less than 2% of an institutional real estate portfolio versus around 20% for traditional apartments. As outlined in “[ODCE Adopts an Alternative Approach](#),” in

the Summer 2024 *PREA Quarterly*, SFR is likely to make up a large share of the shift from core property types, such as office, to alternative sectors. Our projection is for SFR to grow to a 5% allocation in the NCREIF Fund Index—Open End Diversified Core Equity by 2034.

To analyze fit in mixed asset portfolios, investors might consider NCREIF’s new submarket definitions (CBD, urban, SBD, and suburban) for context in the absence of a longer SFR data history. Given the strong relationship between residential property profile and submarket density, property performance trends can be informed by submarket type (Exhibit 4). For example, only 18% of suburban submarkets of this dataset are mid-or high-rise formats compared with 69% of urban submarkets and 98% of CBDs.

We controlled for the effects of COVID-19 by analyzing the data in pre-COVID and post-COVID periods. The data show an inverse correlation between submarket density and both absolute and risk-adjusted returns. What could explain this relationship?

Exhibit 4: Historical Performance by Submarket Density

Total Rate of Return	2000–2019				2020–2023			
	CBD	Urban	SBD	Suburban	CBD	Urban	SBD	Suburban
Average	8.4%	8.1%	9.0%	9.3%	0.6%	3.5%	7.1%	9.2%
Standard Deviation	9.3%	9.2%	8.3%	7.9%	7.6%	8.1%	11.3%	12.5%
Return/Risk	0.90	0.88	1.09	1.18	0.07	0.43	0.63	0.73

Sources: MIM, NCREIF; 3Q2024

Pricing is likely influencing this performance variation. Institutional investors historically have favored denser submarkets as evidenced by accepting a roughly 100 basis points lower income return on CBD and urban assets compared with returns from SBD and suburban assets. This preference wasn't entirely misplaced. In denser submarkets, population growth was faster for most of the pre-COVID period. Higher population density and lower land availability in CBD and urban submarkets made it more difficult for supply to keep up with rising demand, leading to stronger net operating income (NOI) growth.

However, the downside was increased income volatility; CBD assets were more than twice as volatile as suburban assets from 2000 to 2019. For instance, during the financial crisis, NOI declined by 2% in suburban submarkets compared with nearly 15% in CBD submarkets. This might have been caused by a higher cost of living in CBDs, which impacts demand more during downturns. It could also be because of greater land availability in suburban markets, which can prevent large supply-demand mismatches.

Post-COVID, NOI growth accelerated for suburban assets, such as SFR, driven by millennial household formation and the need for more space to work from home. This shift led investors to broaden their field of focus, compressing suburban yields relative to CBD yields and further boosting the performance of less-dense submarkets.

Historically, institutional investors have not focused on these areas, but they may offer more “core-like” investment profiles than denser CBD and urban submarkets over the long term. NCREIF data also indicate that less-dense submarkets now provide

strong liquidity, comparable to that of CBD and urban submarkets institutions favored in the past.

Additionally, these divergent performance trends show that diversifying portfolios with a mix of housing types and geographic profiles can offer benefits. High-rise CBD investments may be more cyclical yet excel at the start of new cycles, for example.

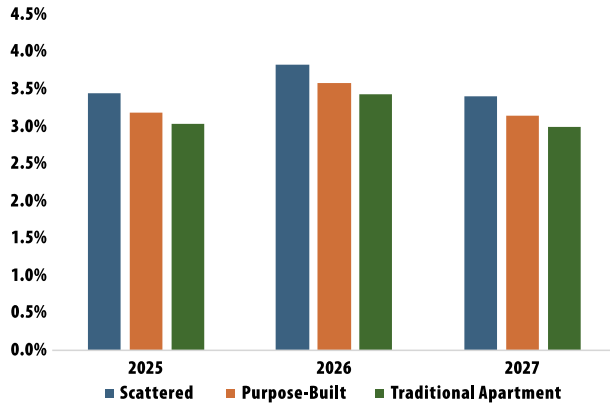
Understanding historical performance, liquidity, volatility, and correlation attributes of SFR is crucial for institutional investors making allocation decisions. But will these relationships hold in the future? What's the outlook for SFR?

2025 and Beyond

Demand shifts have largely defined residential performance over the past five years, but supply is likely to play a much more critical role going forward. The national housing shortage narrative is often overly broad. Housing alternatives within various metropolitan areas, property types, and price points regularly experience divergent market dynamics, and applying the undersupplied narrative to all of them ignores key differences. For example, vacancy rates for many rental types are as high as they've been since the financial crisis.

This cyclical headwind is already beginning to self-correct. New rental housing starts have decelerated more quickly than in prior cycles, and a healthy labor market has kept national rent growth positive. Additionally, most new housing is being added in markets with strong job and population growth outlooks. Across residential formats, the positive trends driving large-format rentals in less-dense submarkets, such as SFR, are likely to continue (Exhibit 5). Scattered SFR units are expected to experience slightly faster rent growth compared with

Exhibit 5: Rent Growth Forecast by Residential Type



Source: MIM; 3Q2024

purpose-built SFR and traditional apartments. This is because of their older vintage, which positions them in a Class B category, in which renter demand may be higher today because of broad affordability challenges. Scattered assets also tend to be more infill and less subject to pressure from new developments.

On the other hand, while the purpose-built SFR sector has not seen the same supply growth as traditional apartments, it competes more directly with traditional apartments in style and rental price, with rent growth forecasts reflecting this alignment. Traditional apartments are expected to underperform because of both supply challenges and the higher concentration of studio and one-bedroom units in denser submarkets, which do not benefit as much from economic and demographic trends favoring larger-format rentals. Our research indicates that scattered and purpose-built SFR assets typically offer similar benefits to institutional real estate portfolios. These benefits include substantial liquidity, market transparency, and diversification with similar risk and return profiles.

While scattered assets have a slight edge on their outlook in rent growth potential, purpose-built assets have the advantage of lower capex and operational needs due to their newer construction in contiguous communities. Additionally, as explained above, purpose-built assets may be less exposed to some of the social and legislative risks that scattered assets could face. In general, a wider range of housing investment benefits investors, and more

capital in the housing market should begin to alleviate the affordability challenges common across the US.

Conclusions

The commercial real estate sector is an evolving landscape. Not long ago, investors were mostly relegated to three or four property types in five or ten major markets. Today, the residential sector alone has more choices than the entire industry did up until the early 2000s.

As argued in “ODCE Adopts an Alternative Approach,” this is generally good for the commercial real estate sector’s performance. Still, new choices come with the fear of the unknown. For the housing sector, this extends to concerns around social issues. However, advancements in data and analytics have sufficiently equipped investors with the tools to confidently make investment decisions among the new pool of alternative property types.

The data suggest that SFR investments, in their various forms, offer the prospect of attractive risk-adjusted returns, provide investors ample liquidity and transparency, and supply other portfolio-level benefits, such as diversification, even against the other major housing sectors. These are the hallmarks of a sector deserving of institutional capital. On the social side, we acknowledge the concerns, but in our view, today’s housing issues long predate institutional investment in SFR, with roots in the NIMBYism of the 1960s and 1970s. We view more capital flowing into the housing sector as a solution (and perhaps the only solution, assuming today’s gridlocked political environment persists) to affordability challenges in the US, rather than part of the cause. ■

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