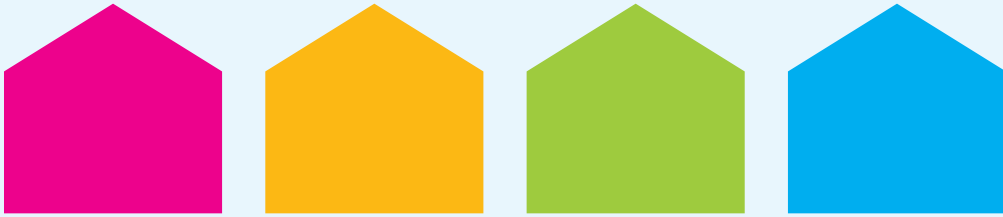


THE HOUSING ISSUE



By AFIRE Staff

While single-family housing has long been the domain of individual owners, the past few decades have seen an increasingly large share of corporate and institutional investors move into the residential space.

Like all trends accelerated by the pandemic, the pace of institutional interest in the asset class significantly quickened over the past year. According to Redfin, investors put a record \$77 billion into the single-family market over the past six months, with institutional acquisitions in the space jumping by 2.7% in Q1 2021, compared to Q1 2020.¹

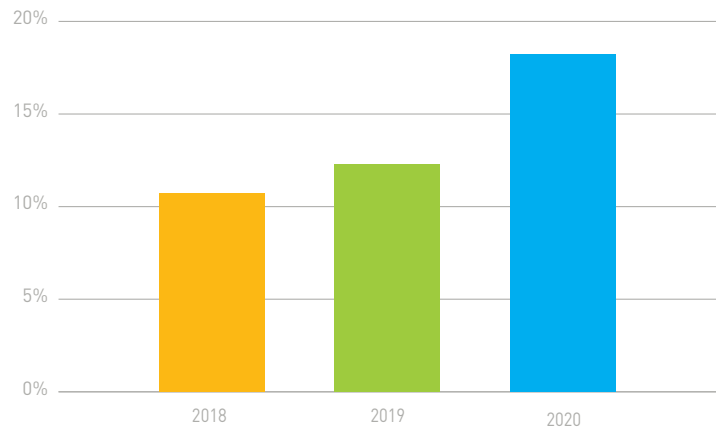
Though the housing sector presents a unique institutional opportunity in everything from single-family rental (SFR) conversions and build-to-rent (BTR) developments, it is also facing a historic supply/demand challenge. In the nearly twenty years between 2001 and 2020, the US built an average of 276,000 fewer homes per year compared to the three decades between 1968 and 2000.² This is 5.5 million units short of historic levels, according to a recent report from the National Association of REALTORS®.³ To make up for this shortage, and to accommodate for the influx of would-be homeowners contained within the large millennial cohort—the next generation of homeowners—the US will need to build 2.1 million homes each year for ten years.

Solving for this would be an unprecedented building boom that could only be made possible through new policies, including tax credits, loans, and grants for builders, as well as denser and more amenable zoning laws in urban areas—including the possibility of converting disused office and retail assets (such as shopping malls) to residential uses.

As residential demand continues to outpace supply, the sector also faces a convergence with larger macro-economic trends, including affordability, which investors rank as one of the leading concerns for real estate over the next few years (see “Shining in the Darkness,” p. 6). For example, the share of millennial renters who have entirely given up on homeownership has gone from 10.7% to 18.2% in the past two years (*Exhibit 1*)—though according to Freddie Mac, “as more millennials reach age 40, their household formation rate will accelerate due to higher marriage rates and more stable incomes.”⁴

EXHIBIT 1: PERCENTAGE OF MILLENNIAL RENTERS WHO “EXPECT TO ALWAYS RENT”

Source: Annual Apartment List Renter Survey



Despite this impending generational shift in forecasted homeownership, the single-family sector will need to find smart solutions to counter (or solve for) these trends, especially because median household income⁵ rose only 19% between 2010, while median home sales prices⁶ rose 44% in the same period—and they continue to trend upwards.

With these questions in mind, this special four-part section of Summit Journal presents a few key ideas that point towards possible futures for the single-family sector, and the role investors can have in solving some key problems—while also generating target yields.

NOTES

¹ “Institutional Buyers are Flooding the Single-Family Market,” The Real Deal, 24 May 2021, therealdeal.com/2021/05/21/institutional-buyers-are-flooding-single-family-market/

² “US Housing Market Needs 5.5 Million More Units, Says New Report,” Wall Street Journal, 16 June 2021, [wsj.com/articles/u-s-housing-market-needs-5-5-million-more-units-says-new-report-11623835800](https://www.wsj.com/articles/u-s-housing-market-needs-5-5-million-more-units-says-new-report-11623835800)

³ “Housing is Critical Infrastructure: Social and Economic Benefits of Building More Housing,” National Association of REALTORS®, June 2021, cdn.nar.realtor/sites/default/files/documents/Housing-is-Critical-Infrastructure-Social-and-Economic-Benefits-of-Building-More-Housing-6-15-2021.pdf

⁴ “Millennials and Housing: Homeownership Demographic Research,” Freddie Mac, May 2021, sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/millennial-playbook_millennials-and-housing.pdf

⁵ “Real Median Household Income in the United States,” Federal Reserve Bank of St. Louis, Retrieved 22 June 2021, fred.stlouisfed.org/series/MEHOINUSA672N#0

⁶ “Median Sales Price of Houses Sold for the United States,” Federal Reserve Bank of St. Louis, Retrieved 22 June 2021, fred.stlouisfed.org/series/MSPUS#0