



# The Profile of Single-Family Renters and the Barriers to Homeownership that Got Them Here

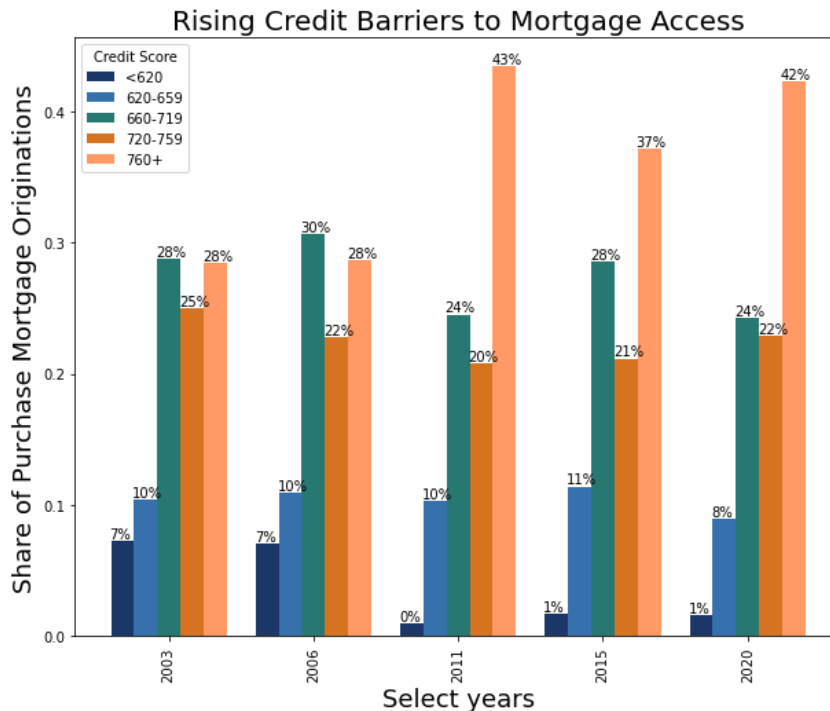
In the wake of the Great Recession, the implosion of bank balance sheets and tightened credit policy that followed took down not only the economy but also, for many households, the prospect of owning a single-family home and achieving the lifestyle that comes with it. Although tightening credit boxes and more stringent underwriting standards are typical in post-recessionary mortgage markets, the extent to which credit has been restricted and the duration to which lack of access has persisted is vastly under-appreciated. A decade has elapsed since the Great Recession, yet tight credit access and a dearth of home construction, —especially at affordable, entry-level price points—continues to exclude many families from homeownership. The institutional single-family rental (SFR) industry has sprung up to help fill this gap and provide hundreds of thousands of American families with access to the space, lifestyle, and location that they otherwise would not be able to access. Without a scaled single-family rental industry, the prospect of raising a family in a single-family home would remain out of grasp.

In many respects, single-family renters look quite similar to homeowners, suggesting both renters and owners have similar reasons and motivations for choosing to live in single-family homes. However, the material differences between these two groups elucidate why renters have difficulty accessing homeownership. Renters tend to have credit scores far below post-recessionary mortgage standards and lower incomes than homeowners, suggesting both saving for a down payment and qualifying for a mortgage remain prohibitive barriers to ownership. Census data for households residing in homes most representative of the types owned by institutional investors suggest that renters are generally younger, have larger families, and are more likely to be single parents than their homeownership counterparts. For these households, a single-family rental is the only attainable alternative to apartment living.



## Post-Recessionary Lending Standards Squeeze Mortgage Access to Credit Scores Below 760 by 20 Percent

FIGURE 1: CREDIT DISTRIBUTION FOR MORTGAGE ORIGINATIONS FOR PURCHASES



Source: Mortgage origination distribution by credit score comes from Primehist and EMBS

Post-Recession bank regulations and shell-shocked lenders tightened mortgage credit requirements, which raised high barriers to ownership, especially for middle- and low-income families<sup>1</sup>. Before the Great Recession, households with good credit (660-719) received as many or more mortgage originations for home-purchases as the households with the best credit scores (760+). Even those with the weakest credit scores (<620) secured 7 percent of mortgage originations or approximately \$100 billion per year prior to 2007. However, the regulations and credit-box tightening that followed the Recession drastically reduced mortgage access for households with weaker credit. In the years immediately following the economic collapse, the group of buyers with credit scores below 620 lost almost all access to mortgages. Originations for this group shrunk from a pre-Recession average of \$100 billion per year to a low of \$3 billion in 2012 and an average of \$17 billion per year since 2009. To quantify the missed opportunity, if mortgage originations for applicants with scores below 660 maintained the pre-recessionary trend of around \$250 billion per year,

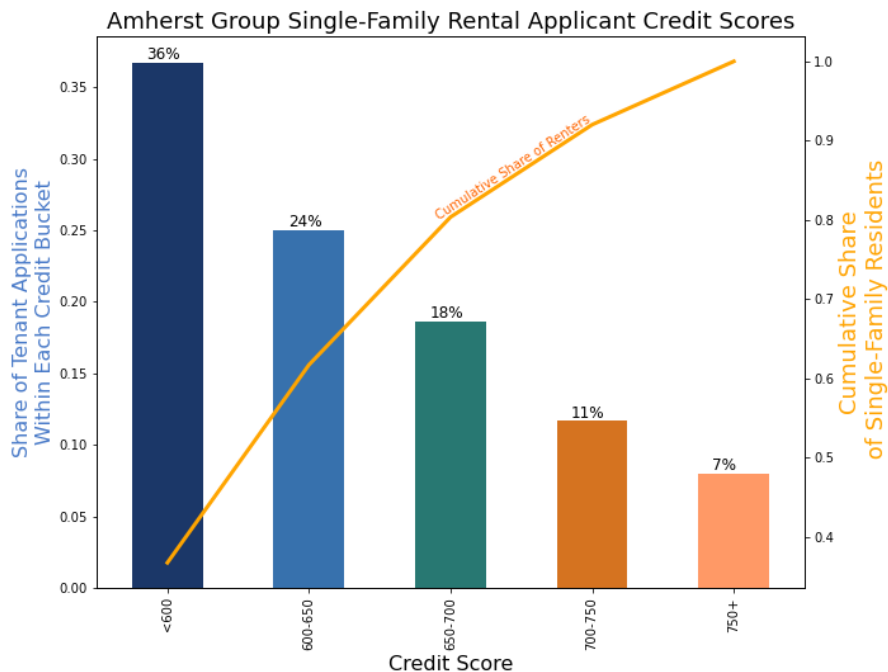
<sup>1</sup> Calem, Correa, and Lee 2020, Lamble-Hanson 2019, D'Acunto and Rossi 2017, Laufer and Paciorek 2016, Goodman, Zhu, and George 2014



nearly \$1.4 trillion more mortgages would have originated for this segment of home buyers between 2010 and 2020<sup>2</sup>. Instead, more than 40 percent of mortgage originations by value go to borrowers with credit scores over 760<sup>3</sup> while the share going to households with less than excellent credit scores decreased by 20 percent<sup>4</sup>. Even amid rising credit scores, the average household score of 710 would find it difficult to borrow. This means that neither the average Generation X credit score of 700 nor the average Millennial credit score of 680 would enable them to become a first-time home buyer at today’s standards<sup>5</sup>. Given how credit scores favor the banked and those better off, the new credit thresholds understate how difficult it is for the average American family to access a mortgage. Moreover, the effects of the COVID-19 pandemic have only tightened the credit box, exacerbating the lack of credit access for the hardest hit households.

## 85 Percent of SFR Residents Would Not Qualify for a Mortgage

FIGURE 2: CREDIT DISTRIBUTION FOR AMHERST SFR RENTERS



Source: The Amherst Group. Scores are from the applications of current residents at the time the data were pulled in August 2021

<sup>2</sup> The total dollar volume of mortgage originations for purchases come from Equifax/NY Federal Reserve. Credit distribution for mortgage originations is sourced from PrimeHist and EMBS for years 2002-2020. This calculation assumes an annual mortgage origination amount of \$250 billion per year which was largely the trend in the early 2000s as originations varied from a low of \$243 billion in 2003 to a high of \$285 billion in 2006 with an average of \$249 billion for borrowers with credit scores below 660.

<sup>3</sup> This is likely an underestimate given our EMBS data primarily contains data for government-backed mortgages and hence may be missing bank loans issued to those with higher credit scores.

<sup>4</sup> More originations by value for excellent credit buyers is likely a confluence of rising credit standards, rising home prices, and rising credit scores.

<sup>5</sup> Average credit scores by generation come from Value Penguin {[www.valuepenguin.com/average-credit-score](http://www.valuepenguin.com/average-credit-score)}



The credit distribution of Amherst SFR tenants<sup>6</sup> makes it clear that the vast majority of renting families would not be able to buy a home nor access the single-family lifestyle except by renting. In fact, more than 60 percent of Amherst SFR tenants with credit scores below 660 would compete for less than 10 percent of mortgage originations. Once we factor in income and wealth, we believe that the share of tenants who would not be able to qualify for a mortgage rises to 85 percent. To frame it differently, if renting a single-family home was not an option, 85 percent of residents that rent through Amherst's property management operator Main Street Renewal would have more limited housing options and likely be raising families in smaller, less spacious apartments.

### **Median Single-Family Renter's Income Does Not Meet Income-to-Loan Requirements for a Starter Home**

In addition to lower credit scores, many renters do not have the income necessary to qualify for a mortgage. The median income for a homeowner in 2019 was estimated to be \$86,000, which is considerably higher than the \$60,000 median income of a renter in a home built after 1980—the house vintage most likely to be owned by an institutional investor. A \$60,000 income qualifies an applicant for a home valued at less than \$265,000, which is considerably lower than the median \$358,800 home price<sup>7</sup>. Consequently, even if single-family renters had better credit scores, most would still have little prospect of ownership due to their income<sup>8</sup>. Single-family renters in institutionally owned homes are not the worst off in this regard. Both the median single-family renter living in an older house earning \$50,000 and the median renter of all housing types earning \$40,000 would have an even smaller chance of qualifying for a mortgage.

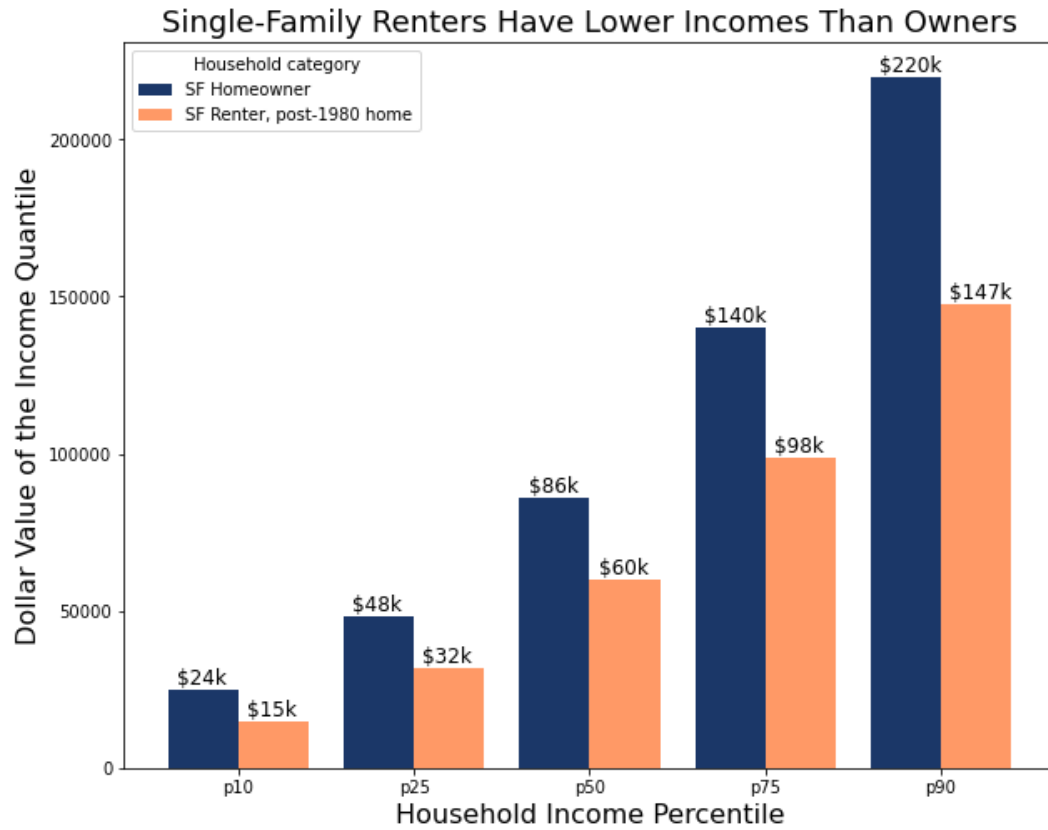
<sup>6</sup>The tenant credit distribution is for residents of Amherst's Mainstreet Renewal properties. Scores for tenants of other rental companies and mom & pop operators may differ. However, given that Mainstreet Renewal tenants tend to have higher incomes than the average single-family renter and that incomes are predictive of credit scores, tenants of other SFR operators likely have lower credit scores and; thus, even less likely to be able to buy a single-family house.

<sup>7</sup>National Association of Realtors Research and Statistics: <https://www.nar.realtor/research-and-statistics>

<sup>8</sup>A \$265,000 home with 5% down suggests a \$251,750 mortgage. At a 3.25% interest rate, payments would total \$1096 per month. Add 1.75% per annum of the home value for taxes and insurance (\$4639 per year or \$386 per month), and another .75 per month for PMI (\$189 per month), and the borrower has total payments of \$1671 per month, or about 28% of gross income.



FIGURE 3: OWNER AND SINGLE-FAMILY RENTER INCOME PERCENTILES

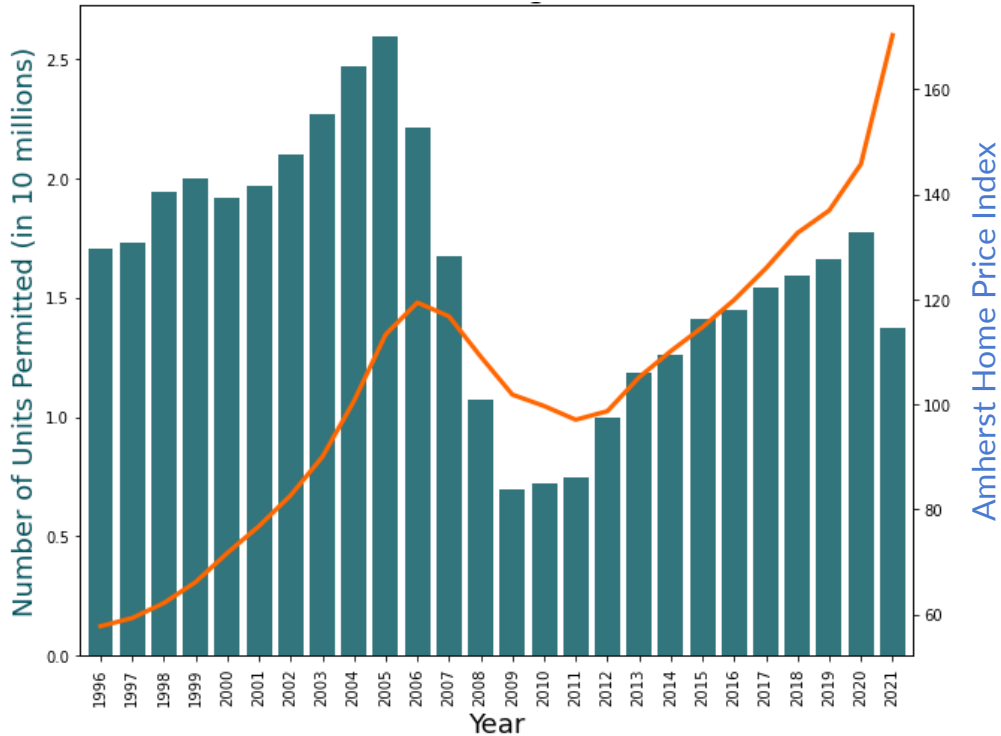


Source: American Community Survey (ACS) 2019 1-year estimate



## Collapsed Housing Construction Leads to 60+ Percent Rise in Home Prices

FIGURE 4: PLUMMETING CONSTRUCTION LEADS TO 60+ PERCENT RISE IN HOME PRICES



Source: Number of permitted units from census as acquired from the St. Louis Federal Reserve Bank; Home Price Index from Amherst Holdings

While tightened credit standards decrease consumer ability to qualify for mortgages, slacking post-recessionary housing construction and an underbuilt supply of entry-level homes exacerbate access difficulties.



The collapse in post-recessionary housing construction has contributed to a shortage of entry-level homes. In the decade leading up to the Recession, U.S. cities annually added 1.1-1.5 million single-family homes per year. Immediately after the Recession, Census Building Permit Data suggest construction plummeted by over 70 percent and has yet to recover to pre-Recession levels. Most recently, in 2019, the U.S. housing market permitted only half of the pre-Recession construction unit numbers.

The impact of this constrained supply, however, is not felt equally among U.S. households. Because of the tightened credit box among mortgage lenders, builders know that the best market for new homes is wealthier households with higher incomes. As a result, the types of homes that are being constructed cater to higher-income buyers rather than entry-level or starter homes. Lower construction rates paired with higher-quality homes culminate in price levels that bar rental households from buying.

The combination of shifting credit policies and homebuilding trends in the wake of the Great Recession has resulted in a widening gap between renters and homeowners and fuels consumer demand for single-family rentals.

## **Single-Family Renter Profile**

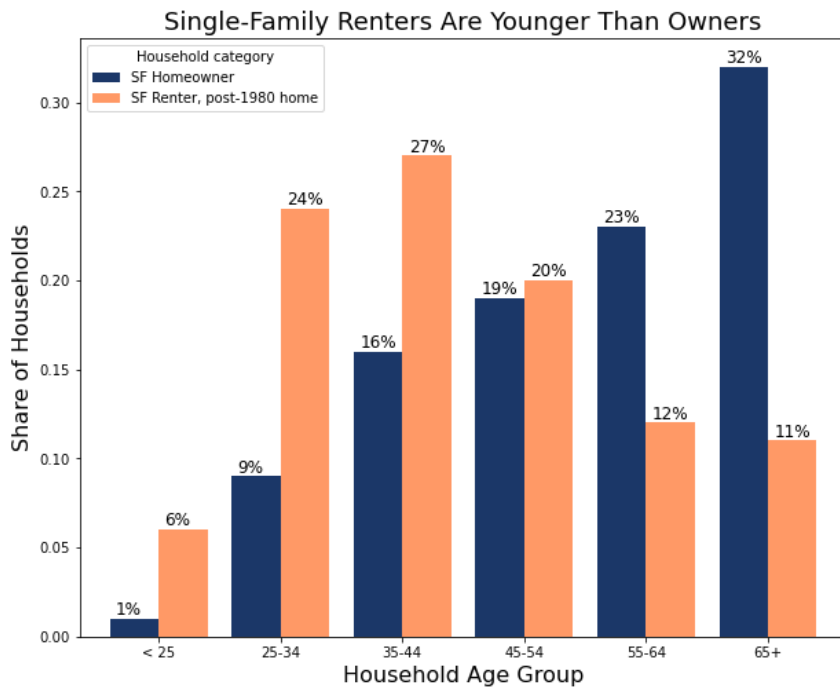
We have now established that renters in single-family detached (SFD) properties with characteristics similar to those owned by institutional investors have lower incomes and lower credit scores than their homeownership counterparts. However, 2019 Census data suggest there are other differences that distinguish these two groups.

### **SFD Renters are Younger than Homeowners**

The Census estimates that the median age of a U.S. SFD homeowner is 57, while the median age of a U.S. SFD renter in a post-1980 home is 42. Among existing homeowners, only 26 percent are 44 or younger, whereas 57 percent of SFD renters in post-1980 homes are 44 or younger. Similarly, only 10 percent of existing homeowners are under age 35, compared to 30 percent of SFD renters under age 35. The fact that SFD renters are younger may partially explain their lower incomes.



FIGURE 5: AGE DISTRIBUTION FOR SFR AND OWNER HOUSEHOLDS



Source: American Community Survey (ACS) 2019 1-year estimate

## SFD Renters Have Larger Families with More Children Living at Home

SFD renter households are more likely to have larger families than owner-occupied SFD homes. Specifically, 33 percent of existing homeowners have children under age 24 living at home, compared to 50 percent of single-family renters in post-1980 structures. When we look more closely at households with children living at home, we see that renting households have more children than owning households. Only 33 percent of SFD renters in post-1980 structures have only one child at home, versus 39 percent of homeowners. Conversely, 31 percent of renters has three or more children living at home, while only 21 percent of owners have families that large living at home.

As a result, there are more people per household in SFD rentals than in owner-occupied SFD homes. Only 44 percent of the SFD rental households consist of one to two members, versus 59 percent of existing homeowners. By contrast, almost 19 percent of SFD renters in post-1980 structures have 5 or more family members, versus only 11 percent of homeowners. This tendency for single-family renters to have larger families helps explain why the extra space provided by a single-family rental property is particularly valuable to these larger households.



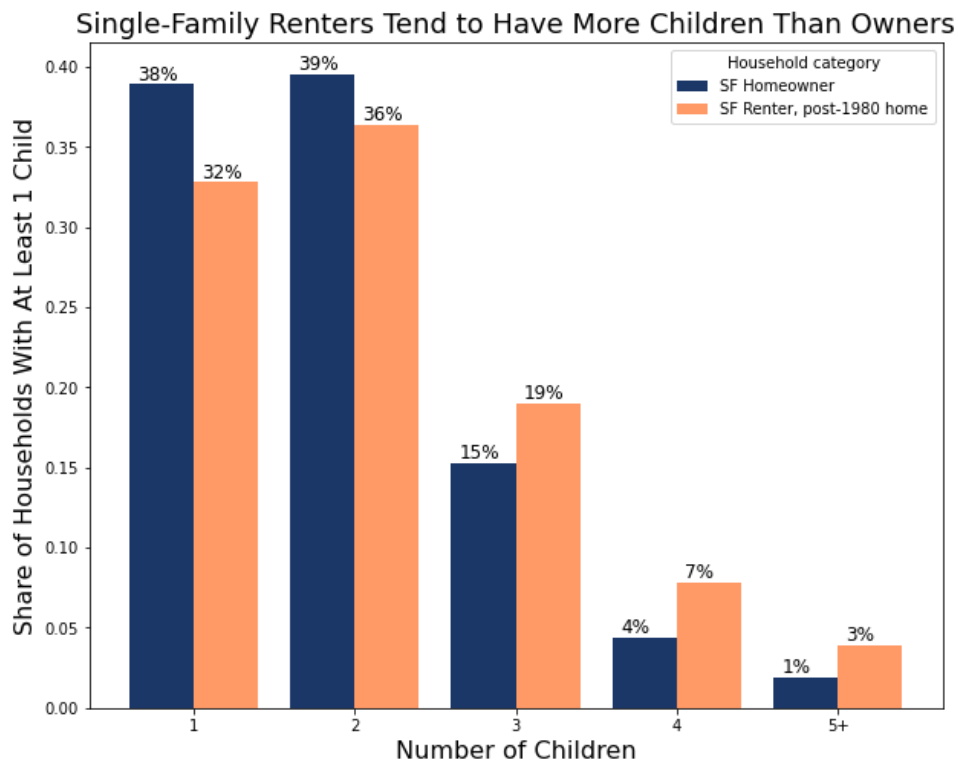


TABLE 1: PERCENT OF HOUSEHOLDS WITH CHILDREN AT HOME

Household Category	Of all Households, Share with Children at Home
SFD Homeowner	33%
SFD Renter, Post-1980 Homes	50%

Source: American Community Survey (ACS) 2019 1-year estimate

FIGURE 6: DISTRIBUTION OF NUMBER OF CHILDREN FOR HOUSEHOLDS WITH CHILDREN



Source: American Community Survey (ACS) 2019 1-year estimate



## SFD Renters Are More Likely to Have One Income, Less Likely to Be Married, and More Likely to Be a Single Parent

There is also a material difference between the marital status of SFD renters and that of homeowners. While 65 percent of homeowners are married, only 47 percent of SFD renters in post-1980 homes are married (Table 2). This lower marriage rate and the higher proportion of families with children mentioned earlier both align with the fact that a much higher percent of SFD renters are single parents. More than 20 percent of SFD renter households in post-1980 structures are single-parent households, as compared with 6 percent among homeowners. More than 40 percent of SFD renters with children have a single parent compared to 18 percent of homeowners.

Similarly, SFD renters have a higher share of single-earner households<sup>12</sup>. According to Figure 7, the share of SFD renters in post-1980 properties who only have one income is 41 percent, compared to only 33 percent among homeowners. Whereas only 55 percent of SFD renting households has two or more incomes, 65 percent of existing homeowners do. The prevalence of single-earner households in SFD rental properties is another part of the explanation as to why SFD renters have incomes lower than those of homeowners.

TABLE 2: SHARE OF HOUSEHOLDS WHO ARE MARRIED AND SHARE WHO ARE SINGLE PARENTS

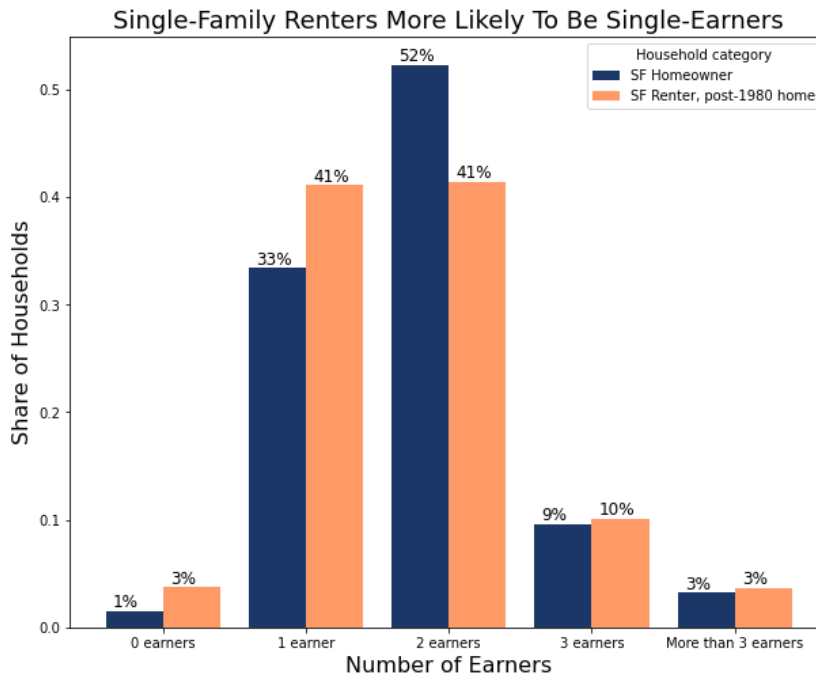
Household Category	Married Share	Parent Share	Single Parent Share, of Population	Single Parent Share, of Parents
<b>SFD Homeowner</b>	65%	33%	6%	18%
<b>SFD Renter, post-1980 homes</b>	47%	50%	20%	41%

Source: American Community Survey (ACS) 2019 1-year estimate

<sup>12</sup>We considered an earner to be a member of the household who earned more than \$5,000 of income from any source.



FIGURE 7: SHARE OF HOUSEHOLDS WHO ARE MARRIED AND SHARE WHO ARE SINGLE PARENTS



Source: American Community Survey (ACS) 2019 1-year estimate

## Summary

Persistently high ownership barriers, driven by high credit standards and underbuilding, bar many households from buying the homes in which they want to raise their family. Operators of single-family rental homes increasingly look to bridge this gap by expanding housing options for American households who do not have the requisite credit or income to finance a home. Like homeowners, renter demand for single-family detached homes is driven by the need for more space for their families, and renters who choose institutionally owned homes are no exception. Given that SFD renters in post-1980 homes are also more likely to have larger families with more children, the need for space is paramount. In parallel, SFD renters are younger and more likely to be single parents with kids than owners, which suggests it may take more time for these households to accumulate the requisite down payment and afford the monthly mortgage servicing payments. Mom-and-pop and institutional investors are helping these families surmount the ownership barriers by expanding access to single-family homes through an alternative and financially viable path to single-family living: renting.

<sup>1</sup> Note, although housing prices grew at similar rates before the Recession, this price growth was led not by under-supply but by unusually low credit standards. This contrasts the post-Recession decade in which credit standards are high and construction is low.



## IMPORTANT DISCLOSURES

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The Amherst Home Price Index (HPI) tracks home price changes in the 20 Metropolitan Statistical Areas (MSAs) that are used to construct the S&P Case Shiller 20-city index as well as over 200 Core-Based Statistical Areas (CBSA) in the United States. The index is published on a monthly basis and is based on the Case Shiller repeat-sales methodology. Unlike the HPI published by S&P Case Shiller Weiss, Corelogic, and the Federal Housing Finance Agency (FHFA), Amherst HPI is a distressed-free index which does not include price changes due to foreclosures, short-sales, bank repossession, and REO resale. The use of Multiple Listing Services (MLS) data that are supplemented by Corelogic off-market data allows the HPI to have a timelier look at monthly shifts in the housing market than other leading market indices.

## ABOUT AMHERST

The Amherst Group of companies comprise of leading real estate investment and advisory firms with a mission to transform the way real estate is owned, financed and managed. Amherst leverages its proprietary data, analytics, technology, and decades of experience to seek solutions for a fragmented, slow-to-evolve real estate ecosystem and to materially improve the experience for residents, buyers, sellers, communities, and investors. Today Amherst has over 900 employees and more than \$10.9 billion in assets under management\*.

Over the past decade, Amherst has scaled its platform to become one of the largest operators of single-family assets and has acquired, renovated, and leased more than 40,000 homes across 28 markets in the U.S. The firm delivers customized, stabilized cash-flowing portfolios of assets to its investors, wrapped in all the ongoing services required to manage, own, and finance the asset including property management, portfolio management, and a full capital markets team. In addition to its single-family rental platform, Amherst's debt business pursues two distinct credit strategies in mortgage-backed securities and commercial real estate lending. Over its 25-year history, Amherst has developed a deep bench of research and technology talent, and leverages data and analytics at every stage in the asset lifecycle to improve operations and preserve long-term value for our investors and the more than 165,000 residents the firm has served.

\*As of June 30, 2021,

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