



LIMA ONE  
CAPITAL

# 2023 State of the Rental Market

# Introduction

---

The Single-Family Rental Market was a story of good news and bad news for real estate investors in 2022. Investors who owned properties benefited from above-average rent growth and the significant home price growth of 2020-22. But investors looking to scale their portfolios ran into headwinds, as increasing interest rates made it harder to purchase properties that would create cash flow.

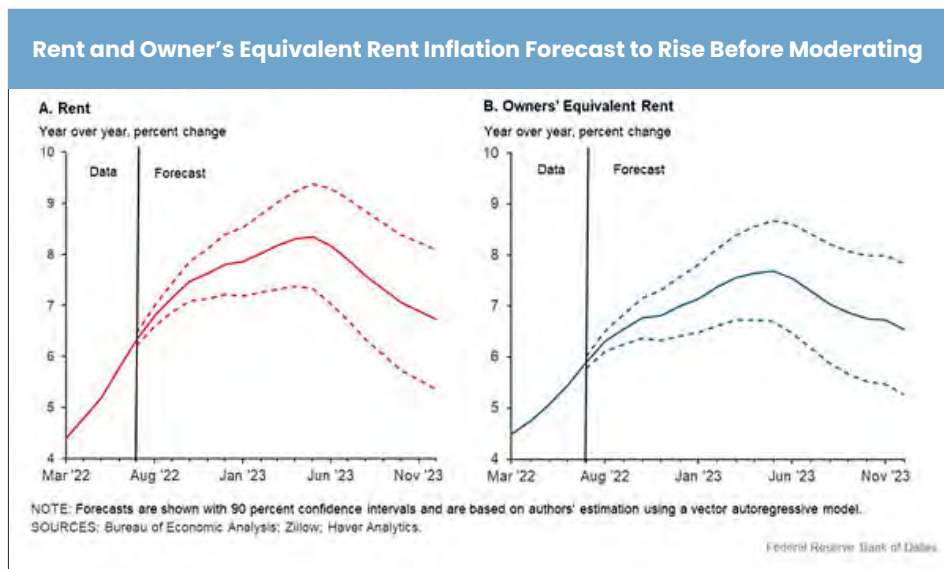
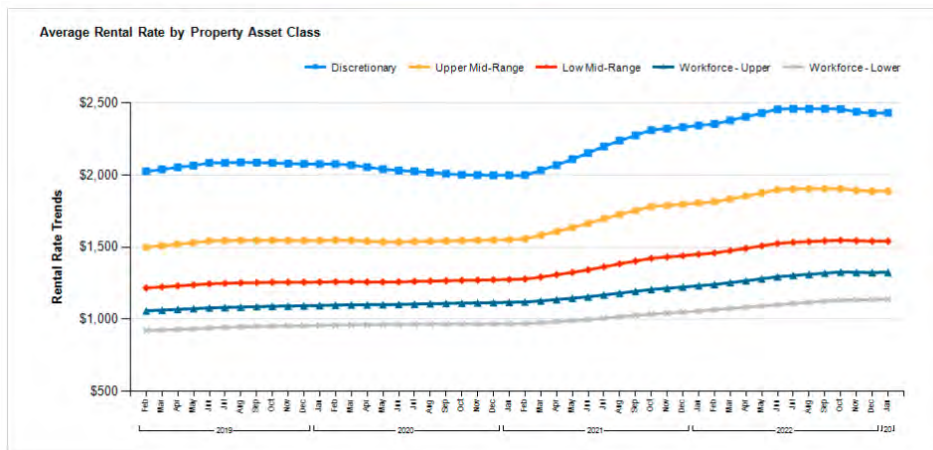
Now, as we enter 2023, it's important for SFR investors to understand what's happening in the rental market. This state of the rental market report will share the big trends in terms of rents, occupancy, supply, and institutional investment. This will help investors determine the best ways to profit from their SFR portfolios in 2023 and beyond.

## Rental Market Overview As of January 1, 2023

- National average rent price = **\$1,716** (all classes)
- National average rents: **Up 6.4% YOY**
- National occupancy: **95%**
- SFR Market: **Approximately 14 million homes**

# Rents

Rents continued a steep climb through most of 2022 before peaking in the fall and declining at the end of the year. While the trend at the end of the year is worth monitoring, a bird's eye view demonstrates that 2022 was another historically strong year for rents—giving SFR investors strong access to cash flow.



## RENT STATS AND FACTS:

**20.6%**

**RENTS HAVE CLIMBED 20.6%  
SINCE BEFORE THE  
PANDEMIC (MOODY'S)**

**5.6%**

**ACTUAL RENTS UP  
5.6% IN 2022**

\* Rents peaked in September/  
October before declining in  
November and December

**4.8%**

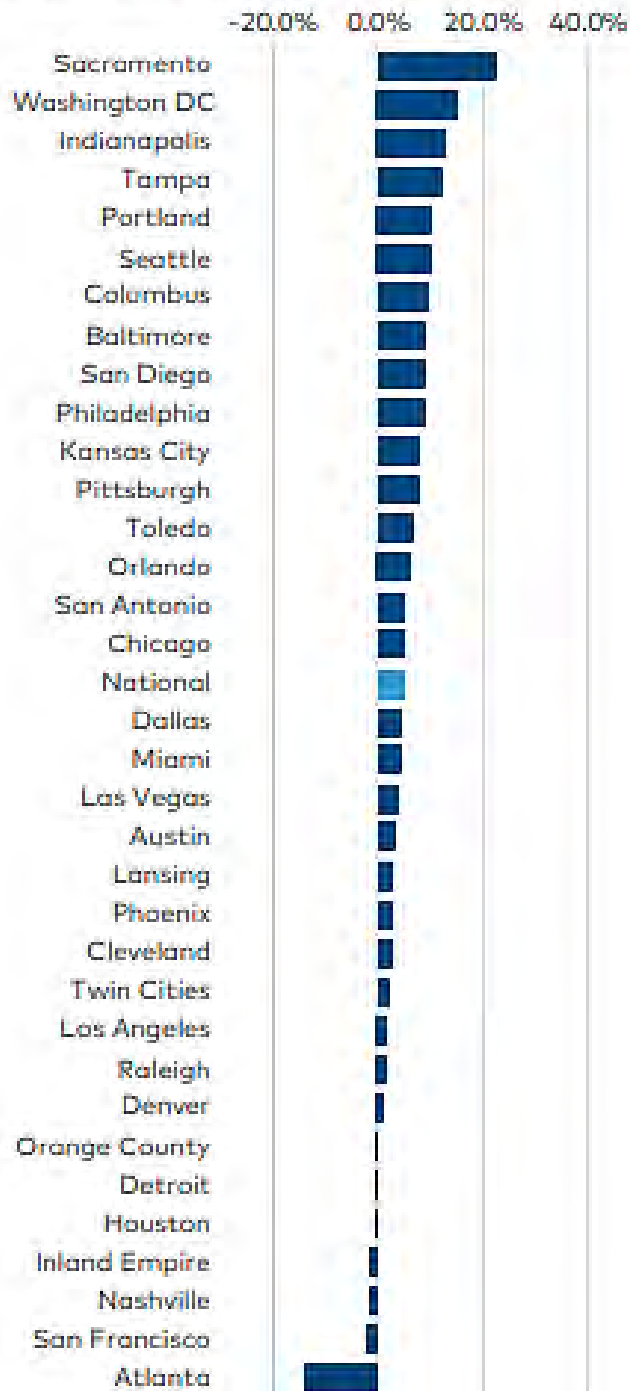
**ASKING RENT INCREASE OF  
4.8% IN 2022 IS DOUBLE  
10-YEAR YOY RENT GROWTH  
AVERAGE OF 2.8% (YARDI)**



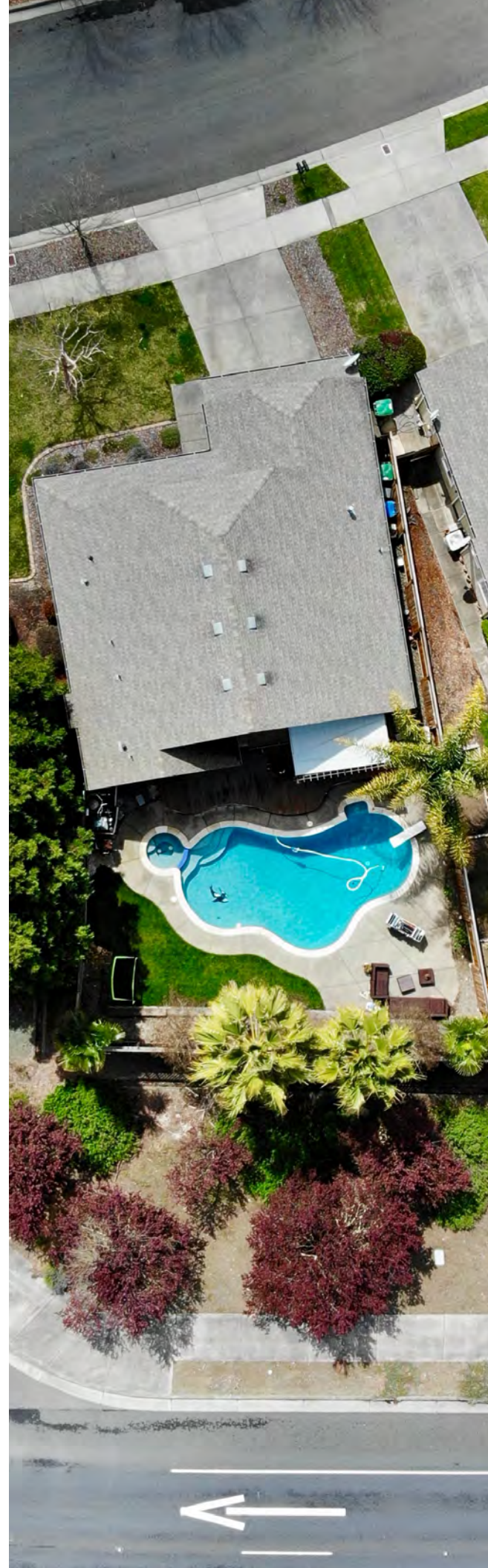
# Top SFR Markets

## FOR 2022 RENT GROWTH

### YEAR OVER YEAR RENT GROWTH - SINGLE FAMILY RENTALS



Source: Yardi Matrix



# Occupancy

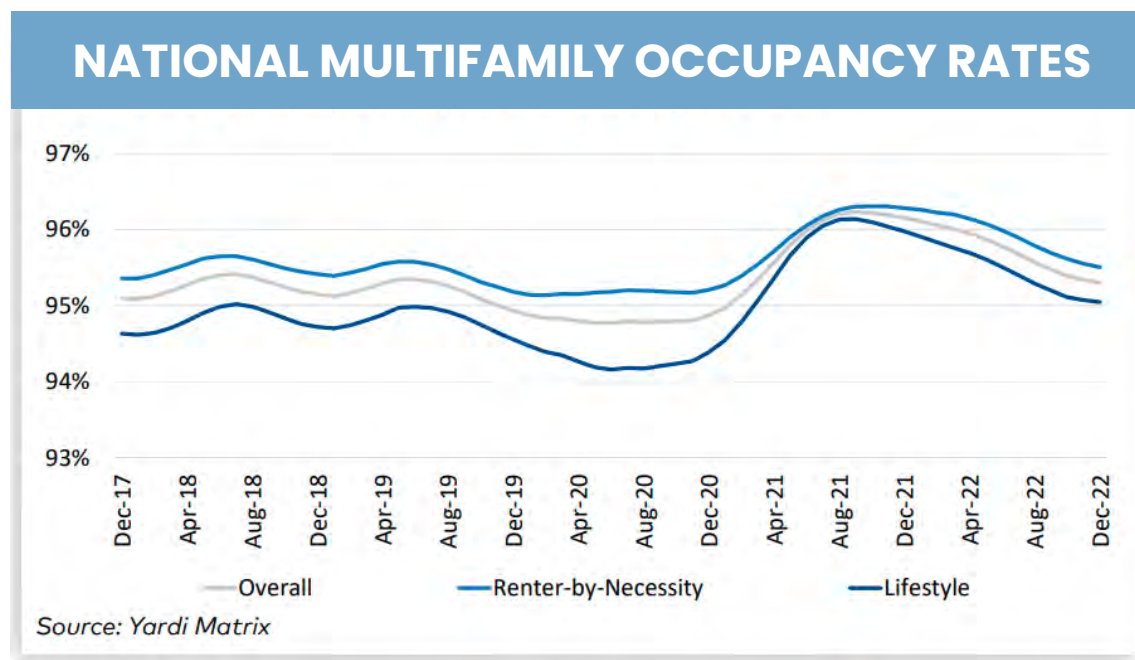
Occupancy for all types of rentals remained at 95%, the typical barometer of a full market. With interest rates high, many would-be homebuyers have turned to SFRs instead. If rates decrease, these people could pivot to purchases instead of rent. While such a pivot could decrease occupancy and affect rents, it will have beneficial long-term effects for investors by bolstering home prices and opening options for SFR owners to sell properties more easily when they're ready.

# 4.4%

**NATIONAL  
VACANCY RATE**



**2023 could see weaker household formation and demand. Meanwhile, transaction activity will be affected by uncertainty about values. — YARDI**

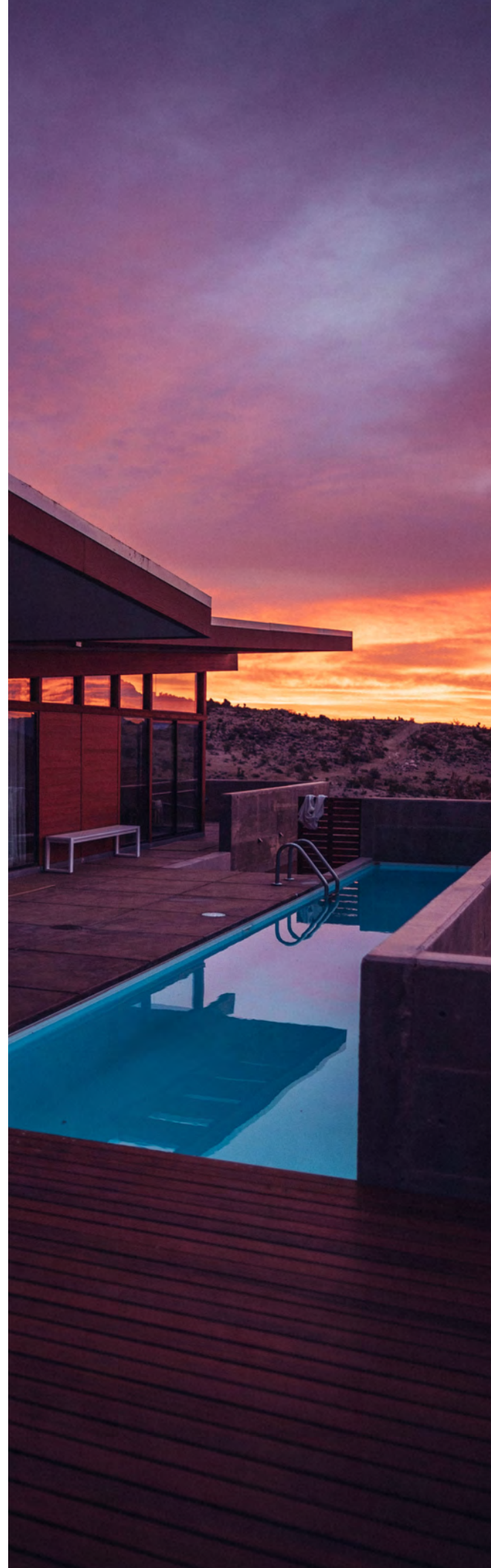
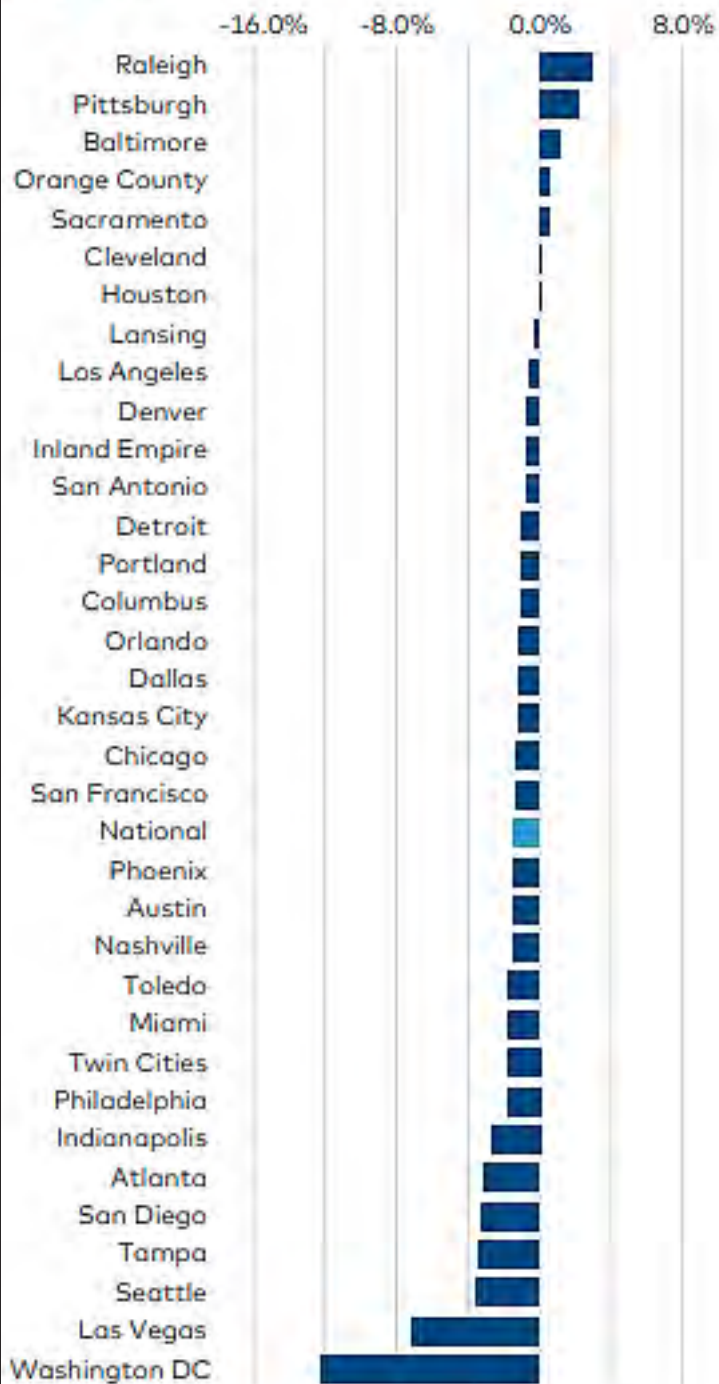




# Top SFR Markets

## FOR 2022 OCCUPANCY

### YEAR OVER YEAR OCCUPANCY CHANGE - SINGLE FAMILY RENTALS



# Supply

---

Overall market trends are increasing the supply of SFR—which could affect occupancy rates and rents in 2023. While builder confidence indicates a slower supply of build-to-rent properties into the market, many would-be sellers are pivoting to rentals instead.

## NET ABSORPTION OF SFRS

**135,472**

**TOTAL NET ABSORPTION IN 2022  
(MOODY'S)**

\*Approximatley 1% of overall market

**10,000**

**NET ABSORPTION IN Q4 2022  
(MOODY'S)**

**Rising mortgage rates are impacting the SFR sector as the number of home sales has dropped. In some cases, owners are giving up trying to sell and are turning homes into rentals, which increases the amount of competitive stock for SFRs. Some 9% of U.S. home sellers switched listings from sale to rental in November, according to John Burns Real Estate Consulting. — **YARDI****

# Institutional Investors and SFR

Institutional investors have jumped into the SFR market with both feet in recent years, impacting home prices, rental rates, and more. While these investment firms get a lot of publicity, they only make up about 3-5% of the total SFR market. And the overall economic uncertainty of 2022 slowed the rate of institutional investors purchasing SFRs, calling into question how much of the market they will gobble up in the coming years.

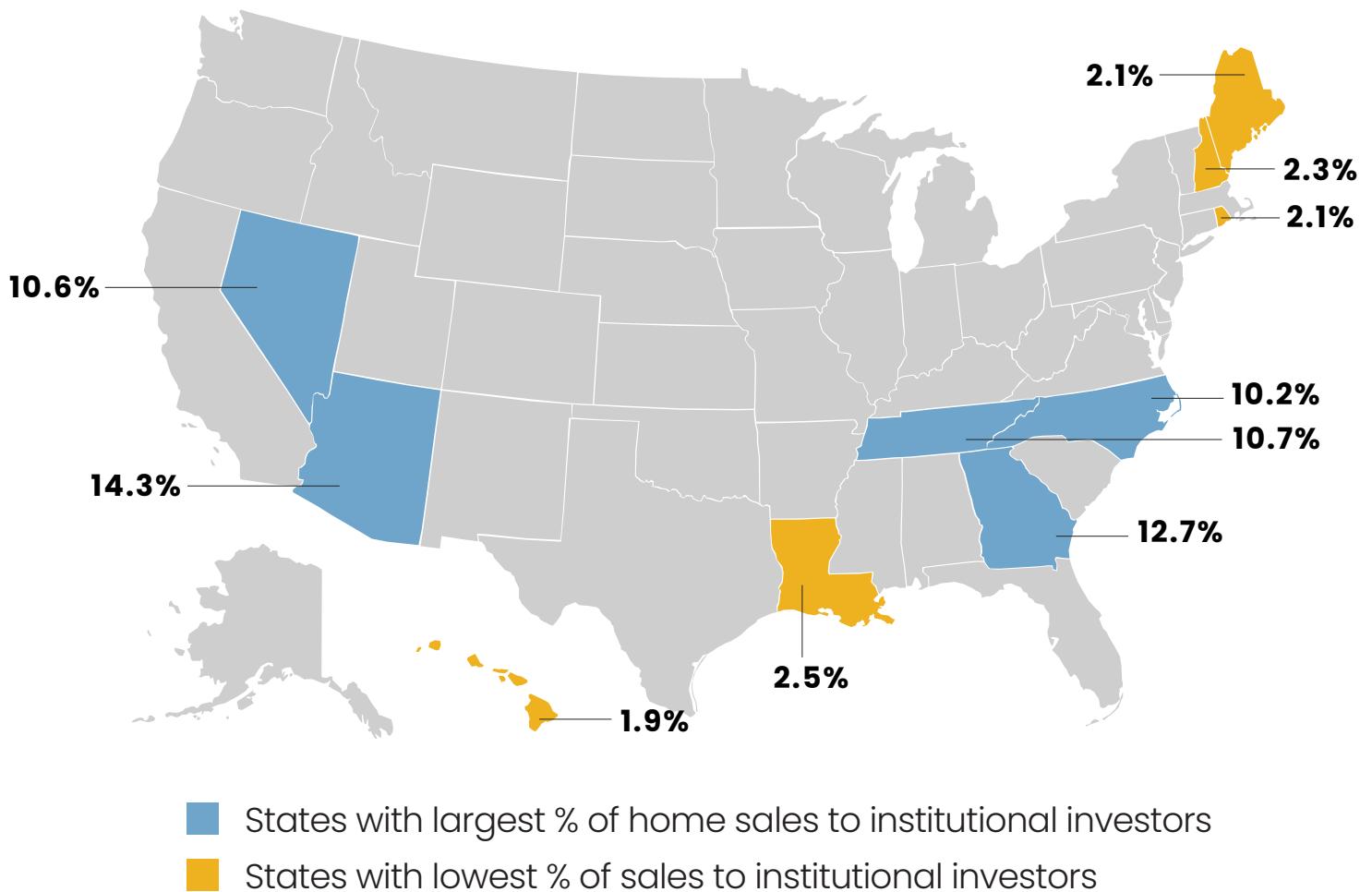
**I don't want to be hyperbolic, but the idea that these (institutional) firms are ultimately responsible for our housing-affordability crisis is absolutely ridiculous, and no one who knows anything about housing markets believes it.**  
— **JERUSALEM DEMSAS IN THE ATLANTIC**

**MetLife Investment Management estimated in a recent research paper that institutions own some 700,000 single-family rentals in 2022, about 5% of the 14 million SFRs nationally. MIM forecasts that by 2030, institutions will increase SFR holdings to 7.6 million homes, more than 40% of all SFRs.** — **YARDI**

**National real estate brokerage platform Redfin reports that investor home purchases dropped more than 30% year over year in the third quarter of 2022, which is "the largest decline since the Great Recession, aside from the second quarter of 2020," at the height of the pandemic.** — **HOUSING WIRE**



# Institutional Investors by Location



## METRO AREAS WITH GREATEST SHARE OF INSTITUTIONAL INVESTORS SELLING PROPERTIES:



# Institutional SF Rental Portfolios

Company	Major Investor(s)	Units (k)	Regions	Notable Partners/JVs
<b>Invitation Homes</b>	Public REIT	83,093	West / Sunbelt	<b>Pulte:</b> Partnership to Build 7,500 Homes Over 5 Years <b>Rockpoint:</b> \$300m JV & 1B JV to Buy Homes
Progress Residential	Pretium	80,000	Sunbelt / Midwest	Founded & Managed by <b>Pretium Partners</b> <b>Onyx+East:</b> \$600m JV to Build 2,000 Homes Purchased REIT Front Yard (RESI) in 2020
<b>American Homes</b>	Public REIT	58,715	Sunbelt / Midwest	<b>JP Morgan:</b> \$625m JV to Buy 2,500 Homes <b>Värde Partners:</b> \$500m JV for Land Development
FirstKey	Cerberus	34,000	Sunbelt / Midwest	Formed by <b>Cerberus Capital Management</b> in 2015
<b>Tricon American</b>	Public REIT	33,423	Sunbelt / West	<b>Pacific Life &amp; TRS:</b> \$5B to Buy 18,000 Homes <b>Pacific Life:</b> \$1.3B to Build 5,000 Homes <b>Arizona Retirement System:</b> \$450m to Build 2,500 Homes
Main Street Renewal	Amherst Group	33,000	Sunbelt	Founded & Managed by <b>Amherst Group</b> . <b>JLL Income Property Trust:</b> \$1B Joint Venture for 4,000 Homes
Vinebrook Homes	NexPoint	22,000	Midwest	<b>NXDT</b> Owns 10.8% of Vinebrook. Externally Advised by NexPoint.
Home Partners of America	Blackstone	17,000	Sunbelt / Midwest	Purchased by non-traded REIT <b>Blackstone Real Estate Income Trust</b> in 2021
Mynd Management	Invesco	13,000	Sunbelt / Midwest	<b>Invesco:</b> \$5B to Purchase 20k homes over next 3 years.
Upward America	Lennar / Allianz / Centerbridge	--	Sunbelt	<b>Lennar / Allianz / Centerbridge:</b> \$4B Deal To Build & Hold Single-Family Rental Units
<b>Institutional Total</b>		<b>374,231</b>	Source: Company Reports, Press Releases, Hoya Capital Estimates	

Source: Company Reports, Press Releases, Hoya Capital Estimates

# The Takeaway

## FOR SFR INVESTORS

---

As the state of the SFR market data shows, real estate investors have benefited from above-average occupancy and rental rates, which play a key part in supercharging cash flow for portfolios. Higher interest rates have helped to support these trends by pricing out would-be homebuyers, pushing them toward rental single-family homes. At the same time, though, these interest rates have made it harder to scale portfolios by purchasing more properties because it has been harder to make the debt-service calculations (DSCR) pencil out on new purchases based on higher rates.

Ultimately, this is the biggest trend in SFR investing—no matter how much publicity institutional investing or other trends like iBuying get. Investors need to laser focus on the numbers on each property—whether in their portfolio or potential purchases. That's the best way to optimize rent rates, tenant searches, and property refinances in today's environment.

But with a focus on fundamentals, SFR investors can still find the cash flow they're looking for. Lima One is here to help, with a variety of SFR loan options to maximize flexibility. These options include fixed rates, ARMs, Interest-only loans, and a new no prepayment penalty loan—all designed to help investors continue growing their portfolio in 2023. Contact us today for more information on how we can help you scale your SFR investment.

### SOURCES:

<https://cre.moodyanalytics.com/insights/cre-trends/q4-2022-preliminary-trend-announcement/>Yardi Matrix  
<https://www.apartmentlist.com/research/national-rent-data>  
<https://www.matthews.com/thought-leadership/single-family-rentals-build-to-rent/>  
<https://www.yahoo.com/video/institutions-set-own-40-single-130410686.html>  
<https://www.yahoo.com/now/quick-enter-market-institutional-investors-191718749.html>  
<https://seekingalpha.com/article/4563139-single-family-rental-reits-save-gloom-doom>  
<https://www.theatlantic.com/ideas/archive/2023/01/housing-crisis-hedge-funds-private-equity-scapegoat/672839/>  
<https://www.hoyacapital.com/post/yields-jump-recession-watch-fed-ahead>