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RESEARCH

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Expanded NPI Shines a Light on Single-Family Rental

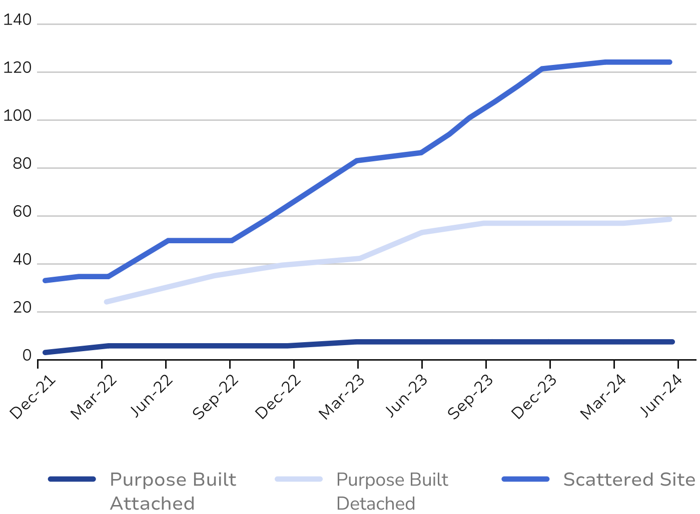
The National Council of Real Estate Investment Fiduciaries' (NCREIF) recent launch of the Expanded NCREIF Property Index (Expanded NPI) gives institutional private equity real estate investors greater insight into the property sectors and subtypes that are actively being invested in. Moving beyond the headline data for Apartment, Industrial, Office, Retail, and Hotel in the legacy NPI, the Expanded NPI's main property types include Industrial, Office, Other, Residential, Retail, Self-Storage, Senior Housing, and Hotels with an array of subtypes and clusters underlying those main property sectors. Noteworthy for single-family rental (SFR) investors is that the Residential sector includes Apartment, Student Housing, Manufactured Housing, and SFR subtypes. SFR is broken out into three design clusters: Purpose Built Attached (Attached), Purpose Built Detached (Detached), and Scattered Site (Scattered).

The Attached and Detached clusters are composed of SFR communities with attached or detached single-family homes. Scattered includes homes that are not part of a single community and are aggregated to a geographic level no greater than metropolitan statistical area or division. In the second quarter of 2024, NCREIF members submitted performance data for 190 SFR investments that qualified for reporting in the Expanded NPI. These investments totaled over $5.4 billion in market value.

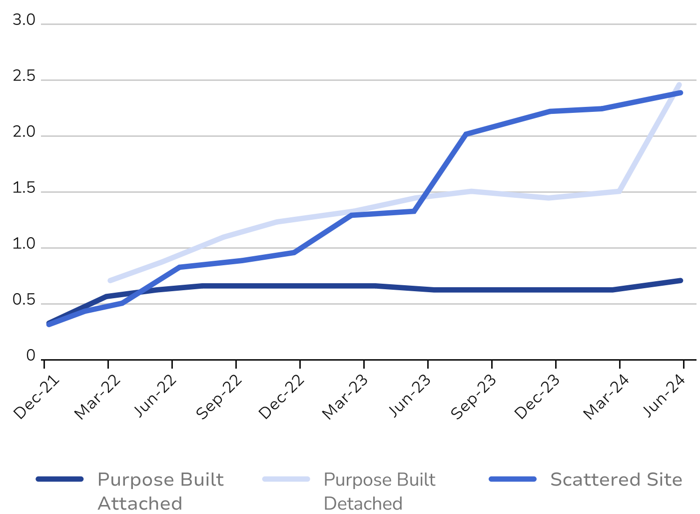
The charts below detail the count and market value of SFR investments by design cluster. Scattered dominates by investment count but is modestly exceeded by Detached in market value. To date, NCREIF members are reporting more limited investment in the Attached cluster

Scattered Site & Purpose Built Detached Dominate SFR Investments Reported To NCREIF

Count of Investments



Dollar Value of Investments ($, billions)

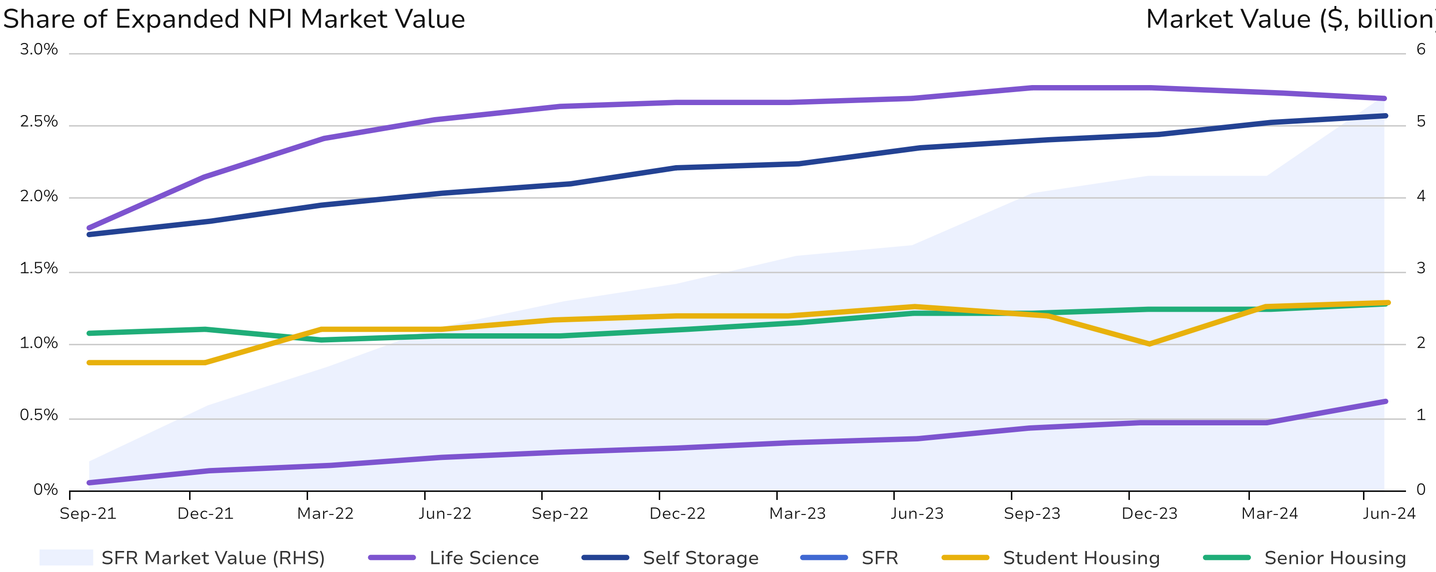


Source: National Council of Real Estate Investment Fiduciaries (NCREIF), Roofstock Research

SFR is still a sector very much on the rise in the NCREIF dataset, with its value in the Expanded NPI rising 60% year-over-year as of the second quarter of 2024. By comparison, the overall value of the Expanded NPI declined by 7.3% during that period. More specifically, the Apartment sector declined by 7.4%, Life Science (including its office and industrial components) shrank by 6.9%, and the market value of Student Housing and Senior Housing investments fell by 5.6% and 3.0%, respectively.

Even with this rapid rate of growth, SFR is still playing a relatively minor role in most institutional portfolios. SFR represented just 0.6% of Expanded NPI market value in the second quarter of 2024. This is well below the 25.6% allocation to Apartment and even Life Science and Self-Storage have large allocations at 2.7% and 2.6%, respectively. Student Housing and Senior Housing have more than double SFR's allocation within the Expanded NPI, at 1.3% of market value each.

SFR Allocation Still Lagging Behind "Alternative" Property Sectors



Source: National Council of Real Estate Investment Fiduciaries (NCREIF), Roofstock Research

There is plenty of runway left for SFR to institutionalize and grow within the NCREIF universe. Consider the value of the Apartment subtype within the Expanded NPI is nearly 42 times larger than SFR, at $227.7 billion, but U.S. Census Bureau data from the American Community Survey show us that 14.2 million renter households occupy single-family homes, compared to just 7.2 million renter households occupying apartments in buildings with 50+ units. Over 96% of the market value of apartment investments within the Expanded NPI have 50+ units.

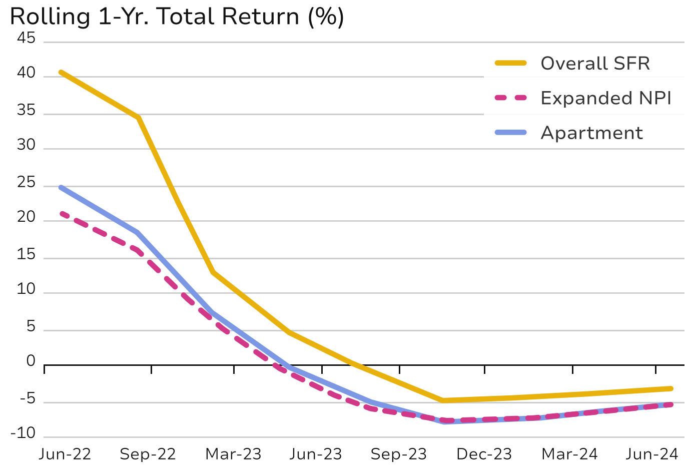
Institutionalization of the sector will take time given the highly fragmented "Mom & Pop" nature of current ownership within SFR. Roofstock's proprietary ownership mapping within Rental Genome shows that investors with a buy-and-hold strategy owning at least 1,000 homes represent less than 0.5% of U.S. single-family homeownership. Further, Rental Genome shows this group was a slight net seller in each of the first six months of 2024. These statistics fly in the face of efforts to demonize institutional activity in the sector as somehow dominating the market and having widespread negative impacts on affordability.

Relative investment performance will be a critical factor in the amount of capital that flows to this sector over time. Given SFR is a new arrival to the index, long-term historical comparisons are not possible within NCREIF, and data may be volatile as the sector has yet to reach a critical mass, but the early outcomes show SFR performing well. On a rolling one-year total return basis SFR has outperformed both the overall Expanded NPI and Apartment sector for the past two years. The SFR investments reported to NCREIF and qualifying for the Expanded NPI have experienced negative one-year returns over the past several quarters, but the accompanying charts show the rest of the index has faced greater challenges.

Within SFR, Scattered has been the best-performing cluster, posting a slightly positive return over the past year. Detached has not been that far behind, holding up materially better than the Apartment sector. Attached has been the notable underperformer in the segment, it is also by far the smallest component of NCREIF SFR so there is sure to be heightened volatility here. With nine investments totaling $650 million, the Attached cluster can easily be skewed by the idiosyncratic performance of a few of the underlying communities. Poor location selection and home design can drag down performance and purpose built SFR communities are sometimes designed more like horizontal multifamily projects in terms of home size and layout. This can cause a property to be more susceptible to localized oversupply of apartments in addition to other challenges.

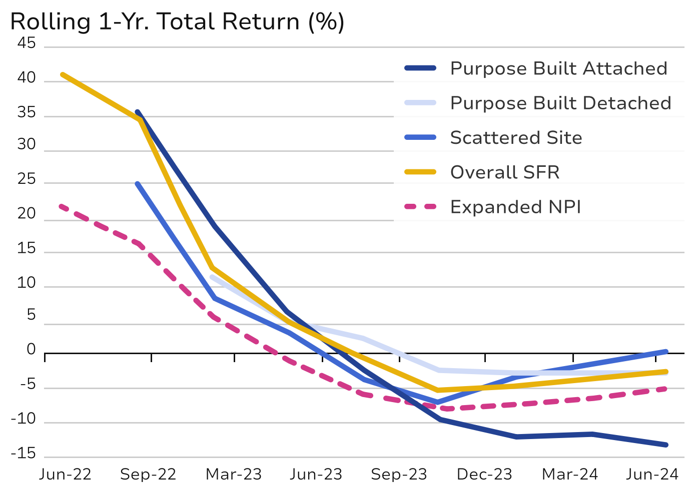
Over the long-term, single-family supply shortages and affordability challenges, coupled with favorable demographic trends should lead to strong relative performance for SFR. Home values in the owner-occupier market can be a bellwether here and home values have historically been resilient to economic downturns and appreciated faster than inflation. Additionally, the public markets can give us some insight into long-term historical performance by the sector. Per data from NAREIT through July 2024, single-family REITs have posted an 11.9% average annual return since December of 2015, trailing only industrial REITs. Apartment REITs averaged just a 5.4% annual return during that period.

SFR Has Outperformed the Expanded NPI & Apartment Sector



Source: National Council of Real Estate Investment Fiduciaries (NCREIF), Roofstock Research

Scattered SFR Generated a Slightly Positive Return Over the Past Year



Source: National Council of Real Estate Investment Fiduciaries (NCREIF), Roofstock Research

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