January 11, 2017

Rent Growth for Higher-Priced Rental Homes Slowed in 2016

Rent Growth for Lower-Priced Rental Homes Stayed Strong

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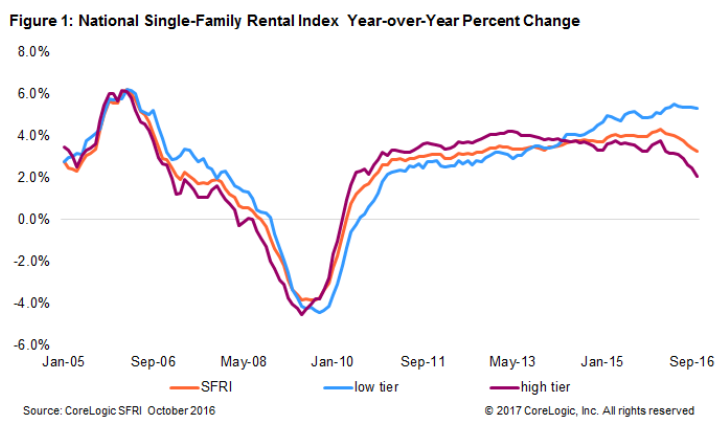
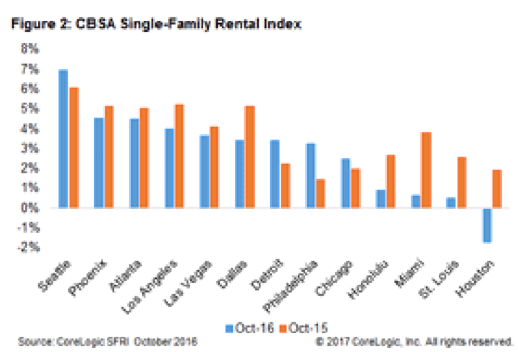


Last July CoreLogic reported that, nationally, rent growth on single-family homes had begun to moderate in 2016 based on the CoreLogic Single-Family Rental Index (SFRI). Now that it is six months later, has that trend continued? Analysis of the CoreLogic SFRI shows that the slowing in the aggregate index has continued.[1] However, an analysis of the index into lower-priced rental and higher-priced rental homes reveals important differences by rent tier. Figure 1 shows that the overall SFRI growth was pulled down by the high-end market, defined as properties with rents of 125 percent or more of the local-area median, although growth in the low-end market, properties with rents less than 75 percent of the local-area median, remained strong. In October 2016, the national SFRI increased 3.4 percent from a year ago, down from 4 percent in October 2015. By tier, rents on lower-priced rental homes increased 5.4 percent, up from 5 percent in October 2015, while rents on higher-priced rental homes increased 2.5 percent, down from 3.4 percent in October 2015.

Affordable, lower-priced rental homes are in strong demand and limited supply. For the lowest-priced rental homes, the shortage in supply has added to rent growth pressure.[2] In contrast, new construction tends to be high-end units, and the additional supply has caused rent growth for high-priced rental homes to moderate. According to the U.S. Census Bureau, homebuilder completions of new rental homes increased 21 percent in 2015 compared with 2014, more than double the annual amount from 2010 to 2012 and the most since 1989.[3]



Rent growth varies significantly across metro areas and over time. Metros with limited new construction and with strong local economies that attract new employees to the market tend to have low rental vacancy rates and stronger rent growth. Seattle experienced almost 7 percent rent growth during the past year, driven by strong employment growth of more than 3 percent year over year and rental vacancy rates of 3.8 percent in 2015, nearly half the 7.1 percent national rate.[4] In contrast, Houston, which has been hit with energy-related job losses since early 2015 and a rental vacancy rate of 9.6 percent in 2015, experienced a year-over-year decrease in rent of almost 2 percent in October 2016.

[1] The number of metropolitan areas included in the SFRI increases over time: 21 metros from 2004-2005 (11 are used to create price tiers), 27 metros from 2006-2009 (22 are used to create price tiers), 40 metros from 2010 and forward (39 are used to create price tiers).

[2] http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son_2016_200dpi_ch5.pdf, pp. 27-28.

[3] https://www.census.gov/construction/nrc/pdf/compsusintenta.pdf

[4] U.S. Bureau of Labor Statistics, Current Employment Statistics(CES), and U.S. Census Bureau, Housing Vacancy Survey.