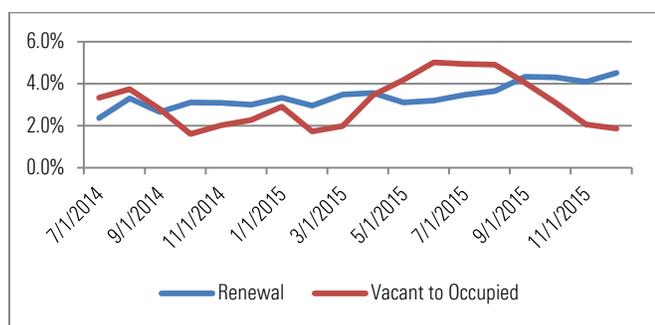


# Rents Increase in Single-Family Rental Securitizations

## Morningstar Perspective

Property managers in single-family rental securitizations have been steadily driving rents higher, and a deep analysis of Morningstar Credit Ratings' single-family rental database shows that those increases have come from renewals more often than new tenants for vacant properties.

**Chart 1a – Overall Rental Change**



**Chart 1b – Percentage of Properties With Rent Increase**

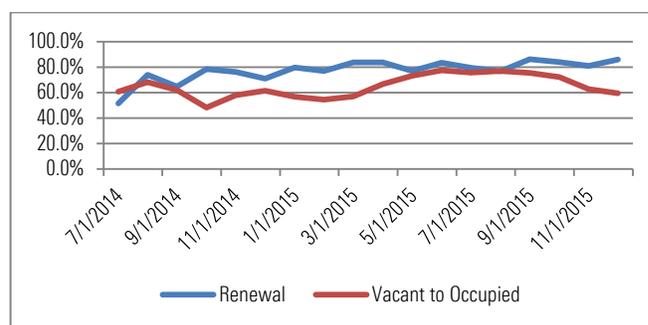
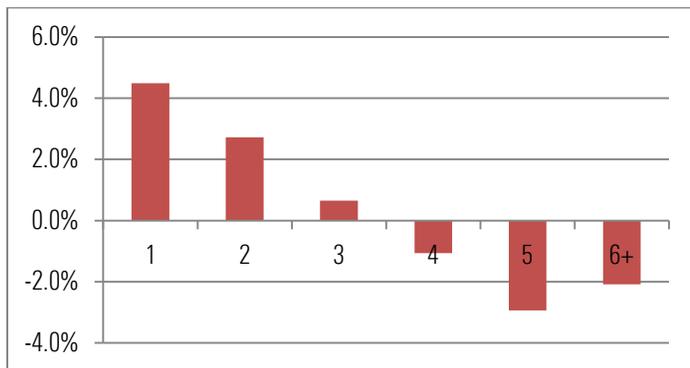


Chart 1a displays contractual annual rent changes for renewal properties and for vacant to occupied properties. While both categories show increases, renewals tend to bring about slightly higher and more consistent rental increases of around 3%-4%. There also appears to be some seasonality to the rental increases, with larger renewal rental increases occurring in the fall months, and bigger vacant to occupied increases happening in the summertime. These findings are consistent with anecdotal evidence that tenants generally prefer to move in the summer, a preference that is due in part to the ease of moving in milder weather. Property managers also stress the importance that tenants place on their preferred school districts. The findings support this claim as well, in that new tenants are willing to absorb higher rental rates in the summer in order to be moved in time for the new school year, and renewed tenants will pay higher rental rates in the fall to meet their desire to stay in a chosen school district. Chart 1b shows the percentage of renewal properties and vacant to occupied properties for which the new contractual rental rate is higher than the previous contractual rental rate. Rent increases more consistently occur for renewal properties than for vacant to occupied properties.

A further dive into rental changes in vacant to occupied properties shows that the length of vacancy plays a large role in the ability of property managers to increase rental rates. The longer a property remains vacant, the more likely a property manager is to shift the focus from optimizing the rent to simply getting the property occupied. Chart 2 shows that the critical cutoff between rental increases and decreases is around three to four months of vacancy.

**Chart 2 – Average Vacant to Occupied Rental Change by Length of Vacancy**



### Analysis

More than two years into the securitization of single-family rental properties, data is becoming more robust with each new issuance and with each incremental month of deal performance. As a result, Morningstar’s database covers 23 single borrower transactions, more than 91,000 individual properties, and 28 months of data. The breadth of this property-level data serves as the basis for more-detailed analysis in the single-family rental sector, with this analysis focusing on contractual rental changes over the past 18 months ended in December 2015. Some data was omitted from the analysis to control for inconsistent reporting of rents, typically found in earlier periods.

One of the most basic, but important, concepts in single-family rentals is simply to keep properties occupied and, as a result, cash flowing. To facilitate this, property managers must strike a balance between driving rents higher and making rents affordable enough for either tenants to renew their leases or for property managers to fill vacant properties. It is in the interest of single-family rental securitizations for property managers to keep properties occupied by maintaining high renewal rates. Our analysis shows that property managers should have a further preference for renewing tenants, as they are able to more consistently realize higher rental increases from renewals than from properties that become vacant.

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