



DETERMINATION ON ENTERPRISE ACTIVITY IN THE SINGLE-FAMILY RENTAL MARKET

FEDERAL HOUSING FINANCE AGENCY DETERMINATION ON ENTERPRISE ACTIVITY IN THE SINGLE-FAMILY RENTAL MARKET

BACKGROUND

The Enterprises have a statutory mission to provide financing for both homeownership and rental housing. The Enterprises support the rental market primarily through their multifamily business, which provides financing for rental housing properties with five or more units. Both Enterprises also provide financing through their single-family business to investors who rent single-family one to four unit properties to tenants. Until recently, the Enterprises' primary role in the single-family rental market has been limited to providing financing for investors that own a maximum of six properties for Freddie Mac and a maximum of ten properties for Fannie Mae.

Historically, single-family rentals have played a substantial role in the overall housing market. In recent years, the single-family rental sector has become the quickest growing segment of the rental market. The Joint Center for Housing Studies estimates that as of 2016 one-unit single-family rentals comprise 39 percent of the U.S. rental housing stock.

Small single-family investors (1 to 50 properties) own the vast majority of single-family rental properties. According to the Urban Institute, institutional investors (more than 2,000 properties) own only a small fraction of the overall rental housing stock, although in the last six years their share has grown as a result of acquisitions following the housing crisis. This growth has slowed, however, as house prices have increased and the number of foreclosed properties has continued to decrease.

KEY CONSIDERATIONS AND INPUT

In response to the growth in the single-family rental market and with the prospect of expanding affordability, FHFA approved Enterprise participation in several "test and learn" pilot transactions in order to assess the challenges and opportunities in the single-family rental market. Both Enterprises were tasked to develop strategies to address liquidity needs in the market and provide information that FHFA could use to inform a final decision on the appropriate role of the Enterprises in the single-family rental market.

Participants in the pilot transactions included institutional investors as well as small and mid-sized investors with fewer financing options. These transactions, combined with additional outreach and research conducted by the Enterprises, provided information on estimated market size, potential market growth projections, investor business models, and existing financing options. In addition to research obtained from the Enterprises, FHFA conducted its own impact analysis and reached out to a wide array of industry stakeholders, including single-family rental investors, lenders, rating agencies, data providers, and consulting firms. In June 2017, FHFA hosted a single-family rental workshop focused on identifying market challenges and soliciting additional feedback from stakeholders. Workshop participants noted a potential liquidity need for mid-sized investors to preserve affordability of current single-family rental properties, a lack of financing options for properties valued under \$100,000, and the need for standardization in asset and property management practices.

HIGHLIGHTS

The Enterprises will conclude their single-family rental pilot programs, but will continue to support the single-family rental market through their existing individual investor programs.

This decision reflects extensive outreach and data analysis and does not preclude the Enterprises from proposing changes to existing single-family programs to meet the needs of the single-family rental market or from developing proposals that utilize single-family rentals as a pathway to homeownership.



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Many participants suggested programmatic changes to the Enterprises' existing single-family investment home programs, such as underwriting cash flows and offering non-recourse loans.

CONCLUSIONS

FHFA has examined the impact of Enterprise participation on single-family rental market stability, rental affordability, and liquidity. While the Enterprises' single-family investment home rental programs have played an important role for small investors, the market for larger investors has performed successfully without Enterprise participation. As a result, FHFA is directing the Enterprises to conclude their single-family rental pilot programs. However, the Enterprises will continue to participate in the single-family rental market through their existing Enterprise investor single-family programs – Fannie Mae's Multiple Financed Properties and Freddie Mac's Investment Property Mortgages.

FHFA recognizes the potential need for long-term financing for mid-size investors that own affordable single-family rental assets, but believes it is premature to allow the Enterprises to enter this portion of the single-family rental market because the effects of their participation on rent growth, long-term affordability, for-sale assets, and homeownership is insufficiently understood without significantly more extensive research and analysis. This decision does not preclude the Enterprises from proposing changes to their existing single-family programs to meet the needs of the single-family rental market or from developing proposals calculated to utilize single-family rentals as a pathway to homeownership.

