



## Housing Rental Market Is Red Hot – But For How Long?

📌 [lending](#) [multifamily real estate](#)

**Summary:** The residential rental market is soaring, both for single-family and multifamily rentals. An exceptionally tight housing market, low vacancy rates, and COVID-related shifts in demand for building use have led to unprecedented growth in rentals and sky-high prices. We take a closer look at the dynamics of the rental market and the implications for community financial institutions.

Did you know that a house with a red front door has had various symbolic meanings in different cultures through the ages? In early American traditions, it represented a welcoming place for food and rest, while Scottish homeowners painted their front doors red once they'd paid off their mortgages. In Chinese Feng Shui, it is thought to bring a positive, welcoming energy to the home.

If front doors were painted today based on the tempo of the housing market, all of them would be red due to its “hot” nature. This hot market is not confined to just home sales, but is spilling over to rentals as well. Rocketing house prices coupled with a shortage of homes for sale is fueling exceptional growth in the rental market. Rents are climbing as growing demand continues to outstrip supply. As a result, the residential rental market is seeing increased funding and investment opportunities, particularly for multifamily real estate businesses.

We've unpacked some of the key factors at play in the market, focusing on what community financial institutions (CFIs) need to be aware of to support their customers and capitalize on potential opportunities.

### Real estate reset

COVID has fundamentally changed people's relationships with how and where they choose to live and work. While the residential real estate market was already strong prior to the pandemic, low interest rates and government stimulus packages have helped keep the market afloat over the past 18-20 months.

### Soaring prices

House prices have been rising at record rates during 2021, reaching an all-time high in Q3. Prices climbed almost [20% between August 2020 and August 2021](#). Although the rate of growth slowed over the third quarter, the [median home price was still up 16% YoY](#). Higher house prices and limited supply are pushing many potential buyers out of the market.

### Potential buyers priced out of the market and looking for rentals

With minuscule opportunities to buy houses, many potential buyers have been forced to turn to the rental market. With a surge of tenants, the housing rental market has tightened.

**Low vacancies.** In a clear indication of the current tightness of the residential rental market, the US Census Bureau reported a [5.8% national rental vacancy rate for Q3 2021](#). This is the lowest it's been since Q2 2020. As

a result, the rental market is booming and both short and long-term rental prices are heading up across the country.

**Single-family housing demand.** Already strong pre-pandemic, the factors noted above have further accelerated interest in built-to-rent single-family housing. Rents in the [single-family sector grew 9.3% in August 2021](#), the fastest YoY growth in over 16Ys. Prices have risen the fastest in Southern metropolitan areas as the pandemic accelerated migration to the Sun Belt. They are also rising again in Northern Cities, due in part to office workers and students returning.

**Thriving multifamily real estate.** The multifamily rental market is demonstrating particularly strong growth, with the national average rent rising over 11% YoY in September 2021. New York, San Francisco, Boston, and Washington D.C. were the cities with the highest apartment rents. In fact, the Governor of the Federal Reserve recently said that this market “is at historic levels of tightness, with over 95% occupancy in major markets.” Multifamily renting has benefitted from a surge in interest from both Millennials and Generation Zers, who prioritize mobility and liquidity in their lifestyle choices.

The pandemic has also shifted the dynamics of the wider real estate sector. With fewer people using hotels and office space and more people needing apartments, developers are increasingly converting office blocks and retail complexes into multifamily rentals. In fact, more of these conversions are expected to have taken place by the end of 2021 than in the whole of the last decade.

### **Capitalizing on the rental market**

While there has been some concern about the prospect of a crash following the boom, the consensus view is that the housing market will continue to grow for some time to come and normalize next year.

**Review and expand portfolios.** With demand for rentals at record levels, investors and developers will continue to be attracted to the rental market. These dynamics could enable CFIs to expand their loan portfolios with existing and new single-family and multifamily real estate business customers, as well as potential buy-to-rent mortgage offerings to smaller investors. Review your current portfolios and have conversations with your customers about the ways they can leverage the current market.

**Keep watching.** Institutions would be wise to keep a close eye on the dynamics of the residential rental market, beyond the current eye-watering increases in rents, as the economy continues to open up. The end of COVID mortgage forbearance protections has already helped to increase housing inventories. As more employees return to office life as the pandemic eases, the flight away from urban areas could be somewhat reversed. Meanwhile, the prospect of stubbornly high inflation has increased the likelihood of the Fed raising interest rates, which would affect mortgage rates, sooner rather than later.

The housing rental market is red hot right now. But, this won't last forever. Making calculated plans today to capitalize on the strength of this market, while planning for normalization in the future, would put you in a good position to reap the benefits today and be ready for any changes tomorrow.

## **EXCESS LIQUIDITY? WANT TO INVEST?**

In this market, is your institution looking for more lending opportunities? [Fully-funded, senior secured floating-rate loans](#) put your liquidity to good use and allow you to gain income. Learn about our C&I Loan Program to meet your loan growth objectives.

# ECONOMY & RATES

Rates As Of: 11/30/2021 09:00AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.06	0.01	-0.03
6M	0.10	0.03	0.01
1Y	0.24	0.09	0.14
2Y	0.53	0.05	0.43
5Y	1.17	0.01	0.83
10Y	1.47	-0.08	0.56
30Y	1.82	-0.11	0.18
FF Market	FF Disc	IORR	
0.08	0.25	0.15	
SOFR	Prime	OBFR	
0.05	3.25	0.07	

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.