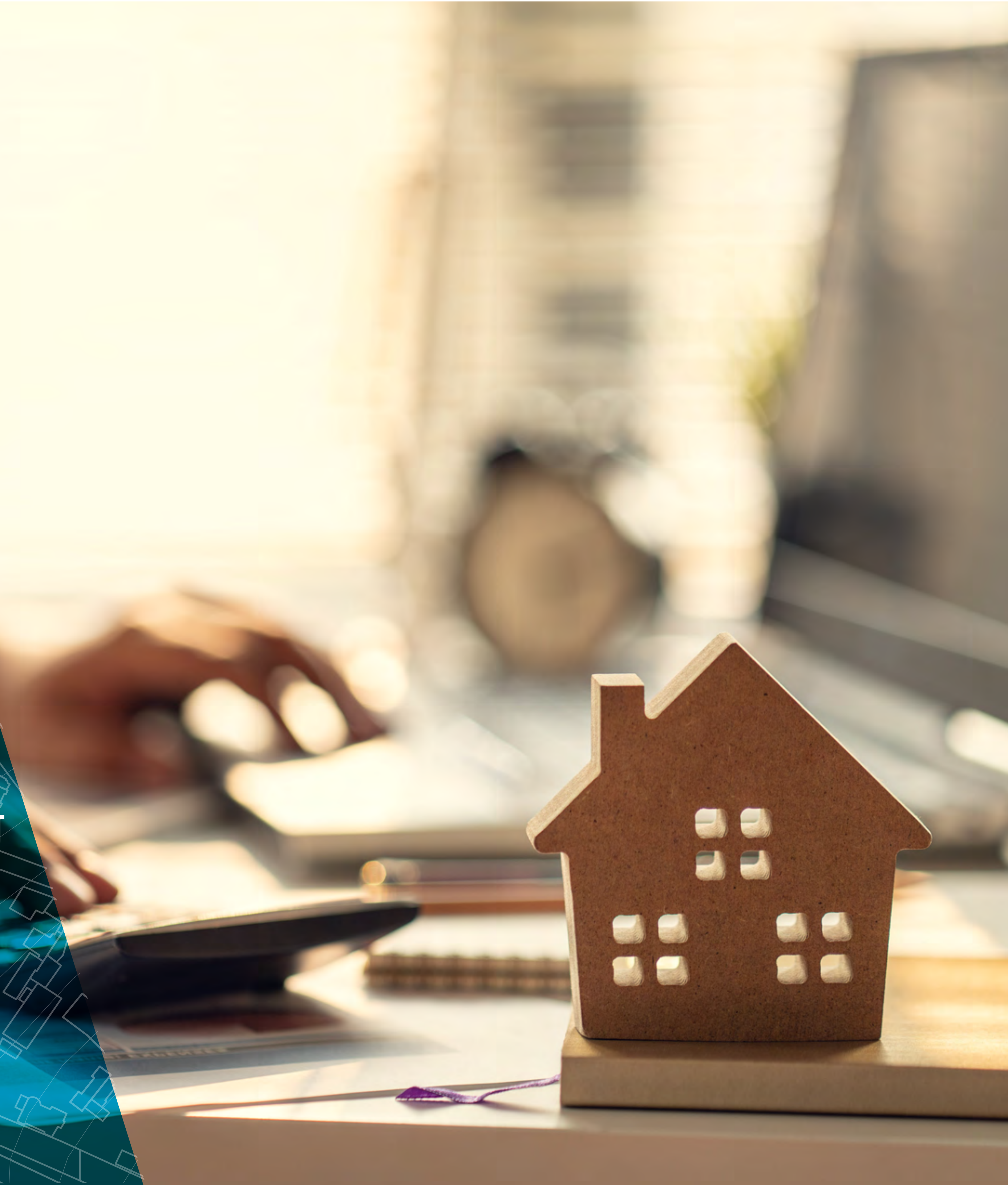
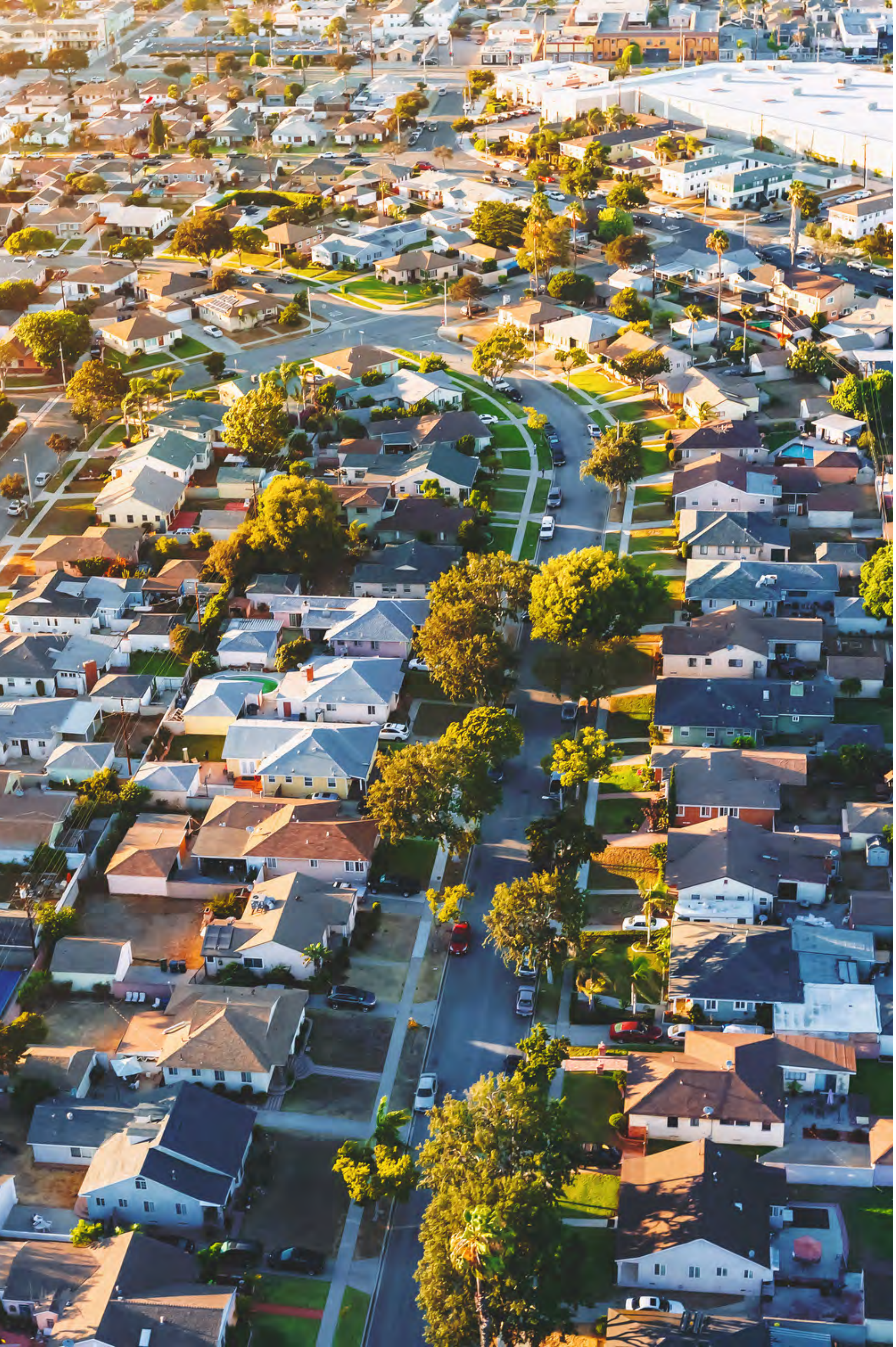
RentersWarehouse®

A Look at the Housing Market As We Enter 2022

GUIDE:

Thinking of investing in real estate in 2022?





Introduction

It's safe to say that today, there's a lot of anticipation in the housing market. Things are booming, demand is surging, and there's a real sense that in most places, it's a definite seller's market.

Likewise, when it comes to rental properties –demand is only continuing to grow, with more people looking to rent, and investors looking to buy rentals. Many investors who own property are expecting their value to increase this year, not to mention their yields to increase as well as rents continue to climb.

But what's happening as we move into 2022? Will things finally start to cool a bit, giving first-time buyers and investors alike a chance to get onto the housing ladder? Will 2022 shape up to be a year of housing appreciation or decline? What about available housing inventory –is there any activity on the build-to-rent front? What should investors know about single-family residential (SFR) rental housing investments as we move into 2022?

While we can't predict the future, we can look at what's happening now to get a good idea about what's in store. In this guide, we're going to uncover some of the developments that we've seen over the last year –along with catalysts that are driving those changes. We'll also take a look at what you can do now, to help ensure that you're prepared to get the most out of those opportunities when they come along.

With this in mind, let's dive in to see what's happening in real estate as we move into 2022.

What's Happening in the Housing Market?

What's happening in the housing market as we move into the new year? Here are a few trends that are shaping the housing market, and SFR investments as we move into 2022.

Housing Prices Are Still Climbing

As you may have already noticed, housing prices have increased again this year: a lot. In fact, housing prices have shot up by a whopping 20% in 2021, and experts expect them to continue their ascent in 2022 as well – although it may be at a slightly slower pace than the sky-high gains we've seen this year.

But it's not just the last year that's seen growth, housing has been steadily climbing since the Great Recession. In November 2015, the average SFR home price was $220,000. Now, just six years later, it's at $308,220.

There are a number of factors that are driving this steep incline. According to Lance Lambart, Editorial Director at Fortune Education in his article on Fortune, we're in the middle of a five-year period where the largest group of Millennials is starting to hit their thirties –the age where first-time home buying really begins to kick into gear. And there's the issue of limited housing. Builders have been playing it somewhat safe over the last ten years, which means that the nation is lacking nearly four million homes –according to Freddie Mac. Tight housing inventory, coupled with low mortgage rates means that there are just not enough homes to go around.

Additionally, low mortgage rates, along with the work-from-home trend that's allowing homebuyers to spread out from major metropolises, are all combining to drive the market forward –and driving housing prices higher in a number of markets across the U.S.

So just how much are home prices expected to increase over the next year? CoreLogic forecasts a 2.2% increase in U.S. home prices over the coming twelve months. John Burns Real Estate Consulting and Freddie Mac are forecasting home price growth of 4% and 5.3%, respectively, for 2022. Meanwhile, Zillow is calling for an increase of 13.6% and Goldman Sachs is forecasting them to soar to 16%, with another 6.2% jump in 2023.

"Annual home price growth was the most that we have ever seen in the 45-year history of the CoreLogic Home Price Index," says Frank Nothaft, chief economist for CoreLogic, in his latest market outlook report as reported by Fortune. "This price gain has far exceeded income growth and eroded affordability. In the coming months this will temper demand and lead to a slowing in price growth."

According to Chris Glynn, an economist at Zillow, home price appreciation can be "difficult to forecast" but he says that they expect home price growth to slow down from historic highs. Zillow describes the housing market as transitioning from "white hot" to just "red hot" in the coming months ahead.

"Converging economic trends are driving a surge in single-family rent prices, and consumer confidence has driven an uptick in demand for both renters and buyers. The ongoing preference toward more living space — and slim for-sale inventory — is forcing would-be buyers back into renting, putting significant strain on the single-family rental market."

-- Molly Boesel,
Economist at CoreLogic

Breaking It Down: A Look at SFR

Housing prices are on the rise, but what does this mean for single-family rental investments?

Single-family residential rentals (SFR) have long since been considered a solid investment, and even amid all of the uncertainty and events that played out over the last year and a half, they've continued to perform very well. Let's break down what's happening with SFR investments now.

Rents Are on the Rise

Along with higher housing prices, SFR is seeing increased rents as well. High occupancy rates have meant that landlords have felt free to raise rents to keep pace with demand.

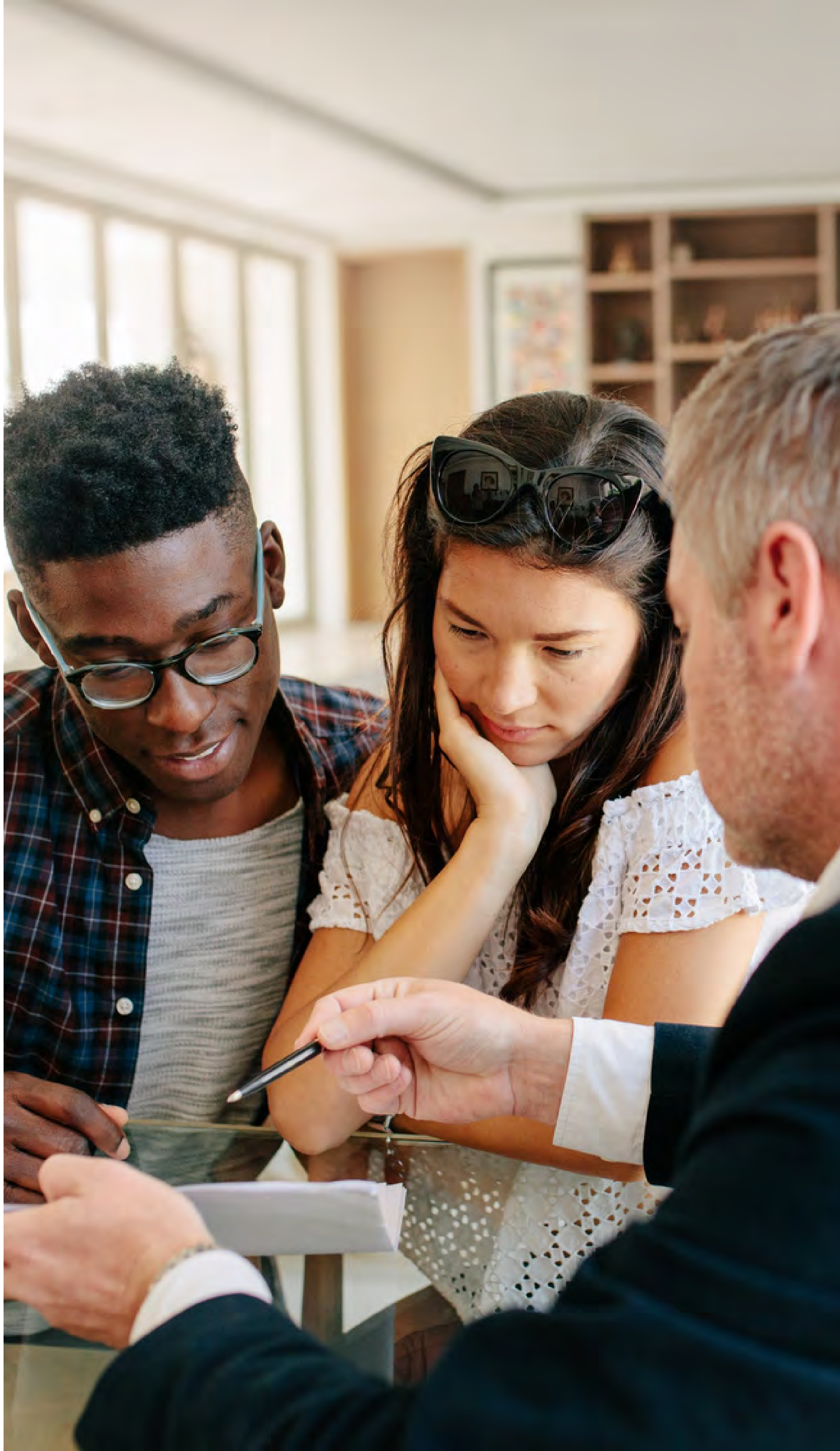
"Demand for single-family rental homes is showing no sign of easing up," writes Diana Olick in her article on CNBC, "And that is pushing rents through the roof, especially for the highest-priced properties."

While rents are up across the board, SFR rents have seen a considerable increase over the last year. While asking rental prices had initially fallen during the first part of 2020 according to Zillow's Observed Rental Index, they have since then recovered and even exceeded their previous trend.

In fact, according to DBRS Morningstar, annual rent growth on vacant-to-occupied (V2O) SFR properties rose to its highest level on record, jumping by 115 bps to 8.3% in January. Meanwhile, Invitation Homes, one of the largest home leasing companies in America, increased prices by more than 10% on vacant homes in April and raised the rent by as much as 8% for already-occupied homes. American Homes 4 Rent, a company that owns 54,000 houses, increased rents 11% on vacant properties in April.

Sky High Occupancy Rates

Currently, occupancy in SFR properties is at a 25-year high across the U.S. The average occupancy rate of single-family rentals was at 95.3% for Q2 2021, according to data from the U.S. Census Borough. Meanwhile, Invitation Homes reported occupancy rates of more than 98% during the first quarter of 2021. It's worth noting that SFR occupancy rates have been steadily increasing since 2011, although there is variation for seasonality. This growing demand for SFR means that in most markets, SFR has a very fast vacant-to-occupied time as well.



New Construction – Build for Rent Continues to Grow

In recent months, there's been strong development in the build for rent (BFR) space as well, as highlighted in a report by Walker & Dunlop. An estimated 5 to 10% of all new builds today are BFRs, according to the report.

This past year has seen an increase in single-family home construction. Some 50,000 new single-family rental homes were added to the market according to Trepp, representing a 66% increase to the average number of new-build rentals that are constructed each year.

"Single-family build-to-rent purpose-built communities will secure a place as a core magnet of housing preference, and could permanently alter the calculus of lifetime homeownership trends among adults," states 2022 Emerging Trends in Real Estate, a report from the Urban Land Institute and PricewaterhouseCoopers (PwC).

So what's fueling this growing demand for new build rentals? There's a good level of institutional investor activity in this space, thanks to SFR's emergence in recent years as a viable asset class. The Walker & Dunlop report puts the SFR market at around $3.4 trillion. As a reference, the entire multifamily market is estimated to be about $3.5 trillion. With the housing market experiencing escalating demand and rising prices, in many cases, it's more economical to build these houses from scratch, rather than compete with buyers for already-existing housing stock.

"BFR is a relatively new concept among SFR investors, national homebuilders, and developers," the report states. "It has become increasingly popular to investors in recent years, including traditional multifamily developers. While the BFR market only makes up about 5 percent of new homes built, it is rapidly growing and will continue to do so as new entrants begin BFR operations."

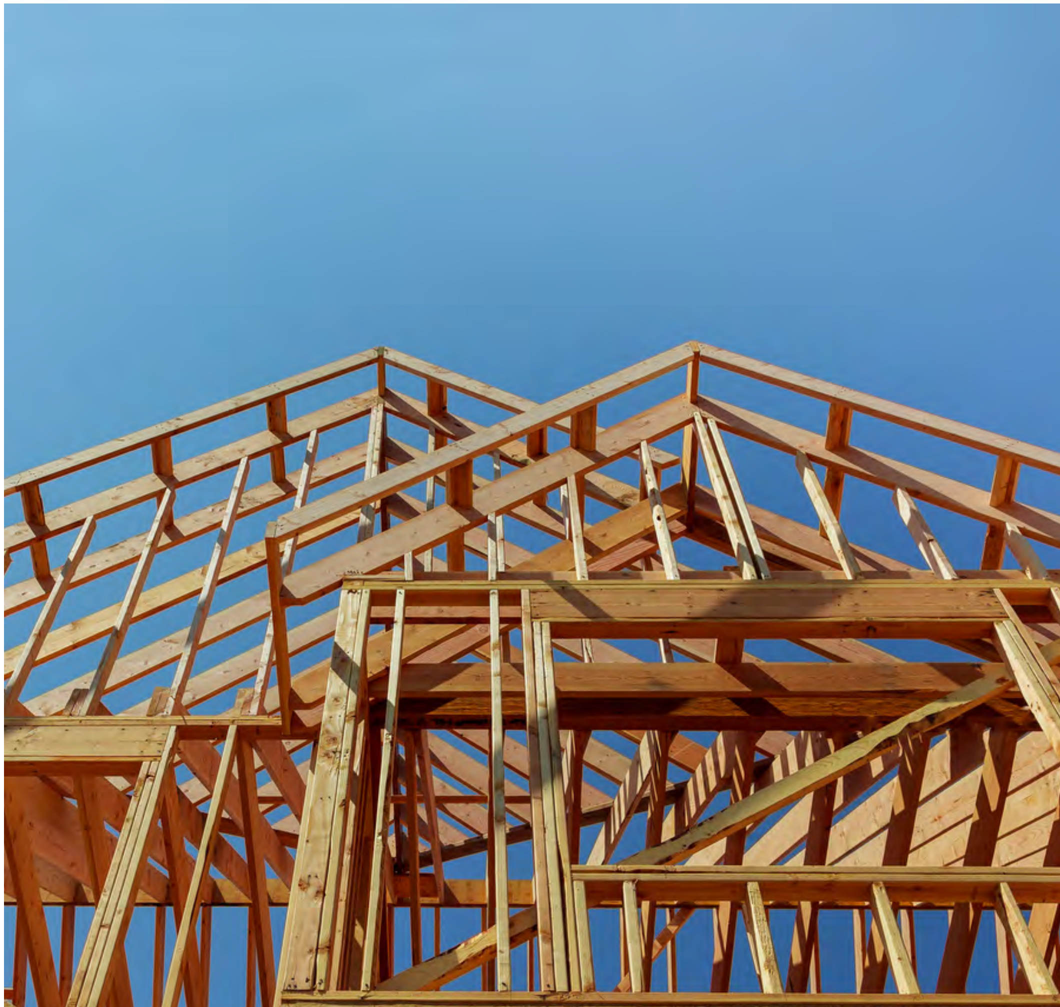
Dynamics - Mismatched Supply and Demand

While demand for housing is surging, developers are finding it difficult to keep up. Supply shortages, along with the soaring cost of materials including copper, steel, gypsum, lumber, soft lumber, plywood, and ready-mix concrete have all seen record-setting price increases. Labor shortages and land scarcity in many markets are all obstacles that builders are facing that will put a damper on how many new home construction projects will be able to be completed.

According to Joseph Edgar, CEO of TenantCloud and Rentler, many developers today are no longer doing speculative development. Instead, they're building based on actual sales. This means that in many cases, only large-scale investors with access to capital or great credit can finance new-home development.

Inventory is slowly starting to rise, though. After dropping to a 40-year low last spring, levels are now up 30%. But even as inventory levels increase, housing is unlikely to come down any time soon.

"If it continues, it would likely increase how long homes sit on the market," writes Lambart.



How to Find a Market to Invest In

With the housing market booming and prices soaring higher, good deals can be hard to find. But that doesn't mean that it's impossible. As the saying goes, "All real estate is local." What's happening on a national level is important, but the local economy plays a crucial role as well. When securing investments, it's all about knowing where to look, and knowing when to buy. There are a number of markets out there that aren't as hot, with good opportunities available. Likewise, even in hot markets, deals can still be found. Value-add property, for example, property that's in need of renovation or repairs, or properties that have been foreclosed on can all be good opportunities for investors to secure assets below market value. Although these days, strong investor interest means that these types of deals are getting harder to find.

So where should investors be looking? According to the report by PwC, here are a handful of markets to watch for real estate investments in 2022:

1. Nashville
2. Raleigh/Durham
3. Phoenix
4. Austin
5. Tampa/St. Petersburg
6. Charlotte
7. Dallas/Fort Worth
8. Atlanta
9. Seattle
10. Boston

Of course, most of these markets are already sky high, and out of reach for many investors. When it comes to rental property, in most cases, you may be better off looking for secondary or tertiary markets where you can find better deals, and often, better returns as well.

Other cities on the PwC list include:

11. Salt Lake City
12. Denver
13. San Diego
14. Washington, DC–Northern VA
15. Miami
16. Orange County
17. Inland Empire
18. Orlando
19. Los Angeles
20. Boise
21. San Antonio
22. Washington, DC–District
23. Fort Lauderdale
24. Houston
25. Las Vegas
26. San Jose
27. Philadelphia
28. Chicago
29. Northern New Jersey
30. Sacramento
31. Oakland/East Bay
32. West Palm Beach
33. Indianapolis
34. Kansas City, MO

How to Find a Market to Invest In (cont.)

One area where investors should be focusing their attention in 2022 is the so-called "smile states," that is, markets that extend across the southern half of the country. While now may not be the best time for investors to dive into downtown San Francisco or Phoenix, markets that are outside of urban hotspots are often hidden gems –emerging markets that are likely to experience growth. For investors, it's important to consider localized economic factors when looking for an investment to spot signs of a healthy, growing market.

It's also important to pay attention to population growth, and note which states, and cities, are seeing growth. Over the last ten years, many people have moved to other states: 6 states have seen a population decline with the largest decrease happening in California. States including Texas, Utah, Arizona, and Oregon all saw net increases in movement.

- **Know Your Goals**

Before you find the right market to invest in, you need to determine what your goals in investing are so you can find the best market. For example, are you looking for cash flow or appreciation, or both? Many investors look for returns that include both cash flow and appreciation, which means finding a market that will offer both of those things. Not all markets do. In some hot markets, houses rent quickly –but the increased expenses and higher taxes mean that the returns just aren't as high. Then there are places in the Midwest or towns just outside of major metropolises where you can find properties that will produce high returns. Some of these places though, don't experience much appreciation. So make sure you've researched the area to see what it's like in terms of cash flow and appreciation, before you invest.

- **Find a Buyer's Market**

Next, you'll want to determine if the area you are considering investing in is a buyer's market or a seller's market, or a transitory market. Generally, the hottest markets are seller's markets, which means property prices will be sky high –something that can impact your returns. While you shouldn't just write a property off because of the current market, you should be aware as it can impact your ability to find a good deal.

Here's a brief definition of the different types of market conditions:

- A Buyer's Market: This is a market where the conditions favor buyers. The housing inventory is high compared to the number of buyers in the market. Supply > Demand. As a result, this usually means lower property prices.

- A Seller's Market: This is a market where the conditions favor property sellers. Housing inventory is low compared to the number of buyers in the market. Supply < Demand. In most cases, this means higher property prices.

- A Transitory Market: A transitory market is when the market is moving between a buyer's and a seller's market. In this market, supply and demand are fairly well balanced. During this market, while there are some deals available, although they're a bit harder to find. This type of market can also be difficult to read.

Keep in mind too that the time of year can also impact market conditions. In most cases, it's usually a seller's market during April to August –when most people move houses, bumping demand up, and driving prices higher. The fall and winter months are usually better months to buy during, as you'll have a better chance at securing a deal.

So how do you know what type of market you're in? While there are often clear indicators, one especially good way is by using the metric "months of inventory." This calculation will show you how long it would take to for every house on the market to be purchased.

Here's the data that you need to find this:

- Total number of active listings on the market (During previous month)
- Total number of sold/closed transactions (During previous month)

You can find the data that you need for this on Zillow or Trulia.

Now, divide the total listings by the total sales to see how many months of inventory are currently on the market. Six months of inventory is considered neutral, while more indicates a buyer's market and less mean's that it's a seller's.

Tip: You can use the Renters Warehouse Research Center to find this data. Take a look to find housing appreciation, population growth, job growth, and more –all valuable data that you can use to assess the health of the local market, and the viability of the investment in question.

- **Try to Find an Emerging Market**

Not all markets are created equal. Real estate investments vary considerably from market to market. One thing that investors often look for is signs of an emerging market.

An emerging market, or a growth market, is a market that's up-and-coming. It's still growing and expanding so it has excellent investment potential. These markets will usually yield the best returns in terms of both cash flow and appreciation.

Here are a few indicators of an emerging market:

- Housing Appreciation

Are housing prices on the rise? Appreciation that's on track with, or higher than national averages is a good sign. Generally, this ranges from 3.5 to 3.8%.

- Job Growth and Population Growth

Job growth and population growth are good signs that an area is going places. As the population increases, the demand for housing –both to rent and to buy, grows as well. Getting in before things become popular is always best, so look for signs that could indicate growth. Signs of development, including new infrastructure, or new jobs due to a major employer coming to town mean more workers and increased demand for housing.

- Number of Building Permits Pulled

Take a look at how many building permits have been pulled. Pay close attention to this number. While too few could mean that nothing's happening in the area, too many could mean an influx of supply –that could drive the rents down.

- Affordability

What are the rents as a ratio to the average local wage? Too high, and you could risk purchasing a rental that may be out of your tenants' price range, meaning you could struggle to fill vacancies and run the risk of tenants paying the rent late. If the median income's more than 66% of the annual rent, then that's a sign of an affordable market.

Is It Worth Investing in? Assessing the Viability of an Investment

Remember: it's important to assess the viability of individual investments. Don't just look at averages. Once you have a prospective property in your sights, here are some things that you'll want to consider:

1. Cash Flow: First up, calculate your cash flow –what will your total annual income be –after expenses?
   - **Cash Flow: Gross rental income - All expenses, including vacancies and repair reserves**

2. Cash-on-Cash Return: Next, you'll want to find your cash-on-cash returns. What's the amount you'll be getting from the property if you'd paid all-cash for it.
   - **Annual Income / Money Invested = Cash-on-Cash Return**

3. Cap Rate
Finally, what's your cap rate? Note that if you're paying all-cash, this figure and your cash on cash returns are one and the same.
   - **Cap Rate: Annual income / purchase price**

So what type of returns should you be looking for with rental properties? That depends –on your investment goals, your priorities, and the market you're investing in, along with projected appreciation. Most investors are looking to match or even beat stock market returns. The historical average ROI on the S&P 500 is 10%, which means you may want to look for property that will produce a similar return.

Learn more about calculating returns on rental property.

Get Local

You'll also want to consider the house itself and neighborhood factors as well, to get an idea about how the property will perform as a rental. For instance, if you're looking at a 3-bedroom property in a quiet suburb, there's a good chance that you'll be renting to families, so you'll want to consider whether there are highly rated schools nearby. If you're buying a one-bedroom near a college, there's a good chance that you'll be attracting students. If so, you'll want to think about the type of amenities that will attract them. Consider whether there will be demand for the type of property that you're thinking of buying.

Companies like Trulia, Zillow, and Realtor all offer a range of tools that can help you to see what neighborhood trends are like, as well as the average cost of homeownership in an area, and the history of a property. Home Union's Neighborhood Investment Rating is a great tool that you can use to dial in your research at the local level. Their neighborhood tool rates different markets between A+ and D, allowing you to see how the area checks out for a potential investment.

Tips for Landlords to Strengthen Their Real Estate Investments Moving Forward

For landlords, much of your success will come down to your individual investment strategy. Not just knowing the current state of the housing market –but your ability to read it, respond to it, and find high-performing investments.

It's also important that you optimize your investments to ensure that you're getting the most out of them. Here are some tips to help you strengthen your investments to put yourself in the best position to generate decent returns moving forward.

1. Perfect Your Tenant Screening Process

First up, make sure you choose your tenants wisely. This last year has been full of challenges for landlords and renters alike –and it's taught us, once again, the importance of finding excellent tenants for your rentals. The eviction ban has been lifted, but late paying –or nonpaying tenants can still be a challenge. It's important to ensure that you have airtight screening policies in place from the start. How can you find tenants who are a good fit? Ask them screening questions, run background and credit checks, and talk with their previous landlords. See more things that you should look for when screening tenants.

2. Reassess the Rent

Rents are rising across the board. According to Realtor, they reached double-digit growth in August, making an 11.5% jump year-over-year, while CoreLogic puts that increase at 9.3%. Assess rents in your area, and if you haven't increased the rent on your unit in a while, it may be time to do so when the lease is next up for renewal.

3. Use Leverage to Increase Your Returns

The ability to use leverage to grow your investments is one thing that sets real estate investments apart from everything else. And this strategy can be a great way to scale your property portfolio far more quickly than you'd be able to on your own. Leverage involves using other people's money –namely, the banks, to fund part of your investment –while allowing you to generate returns on the total amount invested –not just the portion that you chipped in. When used carefully and strategically, this can be a great way to grow your portfolio. Learn more about using leverage here.

4. Watch Your Financing

Look to secure a great loan. You don't want to be stuck with a loan that has a high-interest rate. Whenever possible, look to refinance so that you can use the funds for an additional property, and to get yourself a better rate. When it comes to financing, it pays to shop around. Don't just go with the first bank that you find, instead try to seek out an investor-friendly lender, and compare rates to get the best terms possible. Speaking of financing, whenever possible, try to make a sizable down payment of at least 25%. Not only will this help to protect you from any temporary fluctuations in the market, but it'll also help you to qualify for the best loan terms possible, meaning a better interest rate. It'll also eliminate the need for private mortgage insurance (PMI) –something that the banks will require if you don't have enough equity in the home.

5. Have a Plan for Management

There are three things that will impact the returns that you get on your property. The deal you secure, your financing –and your leverage, and how well your property is managed. If you're planning to manage it yourself, you'll want to brush up on your knowledge of landlord-tenant laws and legislation in your state. You'll also want to ensure that you have a plan to do maintenance and inspections on the property. You'll also need a plan for tenant sourcing and screening as well. Keep everyone on the same page and protect yourself by getting an airtight rental agreement in place that includes clauses on everything from your pets policy, to security deposits, late rent fees, and more.

If you'd like to invest in multiple properties though, or properties that are out of state, then your best option is getting a reputable property manager to oversee the properties for you. A good property manager will help you to keep your vacancy rates low by fully vetting each tenant to ensure that only qualified applicants gain access to your rental. They'll also prioritize communication with your tenant, keeping them updated and informed of important things –and allowing you to ensure that you operate in compliance with federal and state law. Enlisting the help of a property manager will also allow you to sidestep all of the time-consuming day-to-day tasks, freeing you up to spend your time on other things.

While we can't predict exactly what will happen in the housing market as we move into 2022, what we do know is that real estate, particularly SFR, continues to be a solid performer that can produce excellent returns for investors.

As always, this depends on the investment in question; that is, the market that you invest in and the type of deal that you're able to secure, along with the financing that you have in place. So make sure you do your research first, running the numbers to ensure that you'll be getting the type of returns that you're looking for and paying careful attention to localized factors.

By reading the local market conditions and ensuring that you only invest in property that's expected to produce the returns that you're after; you'll be on your way toward creating a healthy, cash-flowing, real estate investment portfolio, one that produces decent returns, no matter what temporary fluctuations are happening in the housing market on a national level.

Looking to get started with real estate investing? Head over to the Renters Warehouse Marketplace to see our available inventory of rental properties and turnkey portfolios, ready to go. Then take a look at our Research Center to find information on the local market, including house appreciation, employment figures, population growth, and more. Assess the health of the market using our free tools and find a property that will generate the returns that you're looking for – ones that are in line with your big-picture goals.

This guide is intended to inform and educate, but it is not meant to be a substitute for professional investment advice. Always remember to conduct your own due diligence before investing.