

## Amherst

# U.S. housing is experiencing an accessibility crisis: How we got here, and how we move forward

*A Q&A with Amherst's Genger Charles and Chris Avallone*

The existing barriers to homeownership are deepening dramatically. Rising mortgage payments, tighter credit regulations, a lack of available housing and outdated inventory have made it harder than ever to access the home-purchase market. While homeownership has traditionally been a central component of the American dream, millions of families across the country have found themselves locked out of affordable single-family housing.<sup>1</sup>

Amid these historic supply constraints and unaffordability challenges, a growing segment of the population needs access to housing options in neighborhoods that provide economic opportunity. For years, reliable and professionally managed housing has largely been the purview of multifamily apartment living. Given the evolving needs and preferences of today's renter population, however, there is now a need for innovation through professional rental management that offers the same perks of homeownership without the financial barriers. Today's renters want green spaces, neighborhoods, backyards, garages, extra rooms for their growing families and all the benefits of single-family homeownership – without the mortgage. The housing industry has historically failed to innovate for this group of renters.



**An Amherst StudioBuilt home**

More than ever, the housing market needs private capital participation to inject investment, innovation, and resources to address supply issues and meet the increasing demand for single-family rental (SFR) housing. With more than half of today's U.S. single-family occupied housing stock built before 1979,<sup>2</sup> home preservation and rehabilitation through institutional capital will play an increasingly important role in the upkeep of habitable housing. By putting homes back on the market and professionalizing the SFR living experience, institutional operators are expanding housing options for American families.

Today, Amherst has further refined this process by focusing on the resident – offering a range of solutions to support residents' housing journey of choice. Whether it is fostering financial empowerment, facilitating residents' access to emergency rental assistance, collaborating with housing authorities to facilitate housing choice, or supporting a resident's housing stability through emergency rental assistance programs, Amherst works to ensure that every resident has access to safe, attainable housing in neighborhoods of opportunity.

*Following is a Q&A with Amherst's **Chris Avallone**, head of merchant banking, and **Genger Charles**, head of external affairs and impact strategies.*

## Today's housing market: Renters face supply and affordability challenges

*Today, approximately 34 percent of American families are renters, either by choice or out of necessity due to financial constraints. Who are these renters, and what challenges are they facing?*

**Genger Charles:** Although we've seen some major economic swings in the United States during the past 50 years, rentership has always been central to the American housing economy, consistently serving 30 percent to 36 percent of consumers during that period.<sup>3</sup> Today, we're seeing the highest demand for single-family rentals among adults ages 25 to 40, and this age group is estimated to grow by at least another 2.5 million households in the next decade.<sup>4</sup> As they have more children, these families are going to need more space than traditional multifamily living can offer and will look to transition into larger homes near education and employment centers. Unfortunately, during that same period, housing affordability has been deteriorating in the United States. In 1960, approximately 68 out of every 100 Americans could afford to buy a home, but now only 43 out of 100 can afford the purchase.<sup>5</sup> Especially during the past 15 years, mortgage loan originations have shifted dramatically to the highest-earning households, creating the largest affordability gap between renting and owning we have seen in more than a decade.<sup>6</sup> With many Americans locked out of homeownership and outgrowing their multifamily units, we are seeing many more renters in the market competing for a very limited supply of single-family homes. This problem becomes even more acute when considering that many of these homes are in need of significant rehabilitation and are difficult to find in opportunity neighborhoods.

*The global financial crisis (GFC) served as a major turning point in the real estate industry. How did this crisis impact prospective homebuyers' ability to access credit?*

**Chris Avallone:** It's difficult to overstate the impact of the GFC on the real estate industry. Before this downturn, the housing market was defined by easy access to credit and strong consumer demand, which allowed banks to lend freely to prospective buyers. The subsequent market crash led to a realignment in the lending landscape. Due to the risk-averse climate that resulted from the GFC, lenders dramatically shifted their focus to top-scoring borrowers, excluding many Americans with below-prime FICO scores from the market. As a result, more than 9 million Americans with below-prime FICO scores have lost access to the mortgage market since the GFC.<sup>7</sup>

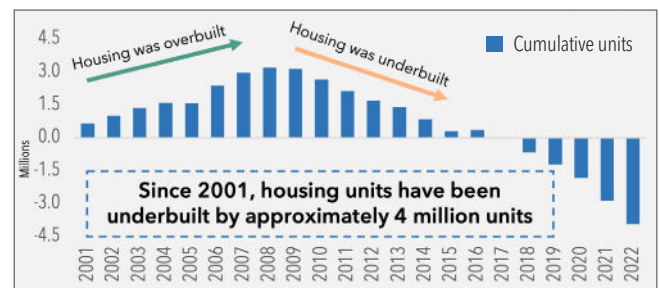
**Charles:** The GFC was an enormous challenge for the industry, and as Chris mentioned, Americans with below-prime FICO scores were disproportionately affected. In the years since the GFC, Americans' ability to secure mortgages has only diminished further. We estimate 650,000 potential borrowers with below-prime FICO scores have lost access to mortgage credit every year since the GFC, a concerning trend especially considering that millennials are hitting their prime household formation years. This tightened credit box means that many families find themselves in a prolonged renting phase despite their evolving household. Yet these families still desire a safe, secure home in a community where they want to live, work and go to school. This has created a tangible need for more single-family rentals in communities of opportunity.

*What factors are behind the housing supply issues the United States is facing today?*

**Avallone:** The GFC not only affected access to credit, but it also created significant imbalances in the housing supply. In the decade leading up to the GFC, U.S. cities were adding between 1.1 million and 1.5 million single-family homes every year.<sup>8</sup> Builders took speculative risks during this time, as a strong pipeline of consumer demand was fueled by accessible credit. But in the aftermath of the GFC, consumer demand plummeted, and construction activity fell by more than 70 percent. This then created an inflection point where demand began to outpace supply, and the accumulation of many years of this imbalance has resulted in a scarcity of single-family housing options for growing families.

**Charles:** It's important to note that this decline in construction activity has persisted over the years. Since that time, we've seen a decade of underbuilding in the real estate industry, which has created a historic deficit in available housing units. Today, approximately 3.8 million single-family units are needed to meet current demand, according to estimates from Freddie Mac. This imbalance has had a far-reaching impact and has led to a decline in the elasticity of the U.S. housing market. This means that during periods of high demand for single-family housing, home prices increase sharply. Even in the face of record interest rates, demand for single-family housing has continued to rise, contributing to elevated home prices.

### Figure 1: Cumulative historical housing supply



Sources: Amherst estimates based on the following U.S. Census Surveys: Survey of Construction, Manufactured Housing Survey, Current Population Survey and American Community Survey

## Creating housing solutions

*How do professionally managed single-family rentals meet the needs of today's renters?*

**Charles:** The single-family rental space has for many years primarily been the province of smaller investors. These "mom and pop" operators, usually individuals or small businesses, are critical to filling the rental-supply void in the markets where they operate. Today's renters are used to getting top-notch service and having access to abundant amenities after growing up in institutional-quality multifamily living. In recent years, we've seen investors and operators pour increasing amounts of capital and resources into apartment communities.

**Avallone:** From an investment perspective, multifamily communities are attractive because they solve the same supply challenge we are seeing in single-family and can be operated efficiently with a small property management team managing dozens of units at a time. Most multifamily communities owned and operated by institutional investors and professional property managers are replete with amenities, responsive resident services and other perks. Single-family rentals are decades behind multifamily in providing a professionally managed

experience. Private capital, however, is increasingly allocating resources to meet the needs of this underserved segment of the market. Professional SFR investors such as Amherst are bringing the amenities and resident services from the multifamily world to single-family, making SFR a much more attractive proposition for an apartment-dwelling family, who are used to professional apartment management but simply need more space to live.

***What role do professionally managed single-family rentals play in the communities where they operate?***

**Charles:** Not only do professional SFR managers provide attractive housing options for residents, but they can also have a deep and long-lasting impact on the communities where they operate. At the most basic level, the capital that professional SFR operators invest in renovation and preservation directly benefits local economies. Studies have shown that for every \$10 million invested in remodeling expenditures, 75 jobs are created and nearly \$3 million in local tax revenue is generated.<sup>9</sup> The presence of professionally managed single-family rentals has also been shown to reduce vacancies, decrease local unemployment and increase mortgage activity among local lenders.

**Avallone:** At the macro level, there is evidence that institutional investment in single-family homes can help ease pressure on the housing market during periods of market volatility, shifting migration trends and consumer preferences, or evolving supply and demand dynamics. This investment also works to strengthen local communities during brighter economic periods, as larger players can benefit from economies of scale, creating cost savings that can be passed on to renters, which can help keep housing at attainable price points.<sup>10</sup>

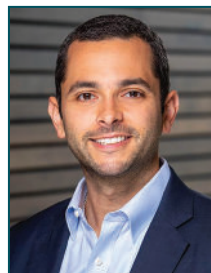
***What is an opportunity neighborhood, and what are some of the benefits they provide to families?***

**Charles:** Where someone lives significantly impacts their ability to achieve upward economic mobility. “Opportunity neighborhoods” have good schools, infrastructure, healthcare services and proximity to employment centers that holistically support households’ odds of attaining economic prosperity.<sup>11</sup> Structural discrimination through historical practices such as redlining and modern-day NIMBYism, coupled with limited access to mortgage credit, often prevented renters from accessing these types of communities. There simply aren’t enough affordable single-family homes in neighborhoods where U.S. consumers can see themselves and their families living, growing and learning. SFR enables families to access these neighborhoods they likely would not be able to otherwise.

***As the industry grows, where will supply come from?***

**Charles:** Housing supply is high on the agenda for policymakers at the federal, state and local levels. The issue is significant enough that the three most recent presidential administrations have announced a federal plan to tackle the housing affordability and supply crisis. Many industry leaders have suggested ways to tackle the market’s persistent supply problem, but an absence of incentives and innovation has led to a lack of tangible progress in increasing the country’s housing stock. In recent years, however, we have seen progress in the private sector providing modern, advanced solutions to reduce construction times and rapidly scale the homebuilding process. Amherst’s StudioBuilt business is one such example. An innovative approach to home development, StudioBuilt utilizes offsite construction to create new housing supply at scale, producing hundreds of quality, new rental homes each year. This studio-based construction process enables homes to be completed significantly faster than traditional onsite

## CONTRIBUTORS



**Chris Avallone**  
**Head of Merchant Banking**  
**Amherst**

Chris Avallone is Head of Merchant Banking at Amherst. Avallone is responsible for Amherst’s third-party capital partnerships, equity partnerships, financing and portfolio management. Avallone joined Amherst in 2018 and has used his 12-plus years of capital markets expertise to grow Amherst’s single-family rental platform and investment management business into one of the largest operators of single-family assets. Prior to Amherst, Avallone was a vice president at Goldman Sachs.



**Genger Charles**  
**Head of External Affairs and Impact Strategies**  
**Amherst**

Genger Charles spearheads Amherst’s engagement with government entities and other housing stakeholders to help identify scalable housing solutions, with a focus on the creation and preservation of affordable and workforce housing. Additionally, Charles leads efforts to implement social impact and sustainability principles across the Amherst portfolio, including oversight of Amherst’s Client Assessment Resources and Empowerment Services (CARES) team. Prior to joining Amherst, Charles served in a number of roles at the U.S. Department of Housing and Urban Development, including as general deputy assistant secretary for the Office of Housing and deputy commissioner of the Federal Housing Administration. She also previously served as a director of banking and capital markets at PricewaterhouseCoopers.

construction, provides better-quality controls during the construction process and is a more sustainable housing product.

Because our StudioBuilt homes are designed in part to be an infill solution, they are effective at combatting blight in neighborhoods by converting vacant lots and dilapidated homes into new, high-quality, tax revenue-generating homes, injecting more capital directly into local economies while adding to the stock of safe, quality, affordable homes.

**Avallone:** This initiative demonstrates that innovation is possible in the industry and new home placement does not have to fit the established standard. Most traditional homebuilding practices constrain the products and locations available to U.S. consumers, as most new builds are constructed in contiguous lots located further from the city center and employment hubs. By contrast, Amherst’s scattered-site capabilities enable us to access land closer to city centers, providing consumers

## Interiors of Amherst's StudioBuilt homes



with new home rental options in opportunity neighborhoods. StudioBuilt and industry adoption of offsite construction has also challenged the industry's conventional outlook on the speed of single-family homebuilding. StudioBuilt homes built at our studio in Cuero, Texas, can be completed 50 percent faster than traditional onsite homebuilding. At full capacity, our team will be able to build 60 new single-family homes every month, replenishing housing stock for underserved communities. Importantly, the StudioBuilt home construction process is more sustainable, producing half as much waste as regular home construction. The product's preconstruction in the studio setting also greatly reduces neighborhood disruption with less noise and dust pollution.

### How does Amherst's vertical integration enable the platform to provide other solutions in the SFR space?

**Charles:** Our scattered-site strategy is a key component of this approach. By making use of technology and on-the-ground infrastructure, we can identify homes dispersed across the country in need of institutional-quality capital expenditures. Our philosophy, best described as "housing as a service," is illustrated by our vertically integrated capabilities. Our team renovates, leases, manages and preserves housing opportunities for the long term, all while injecting millions of dollars into local economies and partnering with local vendors within the communities we serve.

Another resident service we built on our platform is our CARES (Client Assessment Resources and Empowerment Services) program. This in-house team of social workers and program specialists enables us to bring a social work philosophy to property management by empowering and educating our residents to achieve greater housing stability through resource sharing, advocacy and social-emotional support. This team includes a full-time housing counselor who provides financial empowerment programming and budgeting tools to help residents move up the income spectrum. This team doesn't just help our residents achieve better housing outcomes – it also promotes retention and financial stability, which supports the business.

**Avallone:** In the industry, it's becoming increasingly clear that the resident journey doesn't end once a home has been purchased or a lease has been signed. Going beyond the SFR industry standard to help residents access vibrant communities and thinking innovatively about specialized resources to support residents' housing experience will be crucial as the industry advances. We seek to be an active, contributing partner in that

effort. For Amherst, it is important for us not to lose sight of our core goal to expand access and housing choices for U.S. renters. This means thinking critically about housing stability and constantly improving how we deliver housing as a service. While we understand that not all professional managers share our vision, we encourage investors to start a conversation with us to gain more insight into the benefits of Amherst's approach. Getting public and private stakeholders to discuss these critical housing issues is the first step in developing solutions to these challenges that can make a real impact on everyday American families. We welcome the opportunity to do our part to cultivate and elevate that conversation, so we can make housing more accessible for all.

Notes: <sup>1</sup> Amherst estimate; <sup>2</sup> Amherst tabulation of one-year 2021 U.S. Census data; <sup>3</sup> U.S. Census; <sup>4</sup> 2021 one-year ACS PUMS on nongroup homes among those who moved in within the past two years; FICO scores among mortgage originations from 2021–2023 eMBS; FICO score for single-family renters internal MSR 2023; FICO for multifamily renters from Freddie Mac report, which includes both multifamily and single-family renters; institutionally owned data from National Rental Home Council; <sup>5</sup> Zebra.com calculations of U.S. Census Bureau data, as of September 2023; <sup>6</sup> Amherst estimates based on eMBS mortgage origination data; <sup>7</sup> Amherst estimates based on eMBS mortgage origination data; <sup>8</sup> Census New Residential Construction Survey; <sup>9</sup> National Association of Homebuilders; <sup>10</sup> Federal Reserve Bank of Philadelphia; <sup>11</sup> Urban Institute, "Why Housing Matters," January 2021

### CORPORATE OVERVIEW

**The Amherst Group** (Amherst) is a diversified data-driven investment management platform at the crossroads of global capital markets and U.S. real estate, offering strategies up and down the capital stack.

Amherst manages \$17.3 billion\* of AUM deployed across real estate equity and debt strategies in single-family rental, commercial real estate, and mortgage-backed securities (MBS).

Please visit <https://www.amherst.com/> for more information.

\* As of June 30, 2023

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