SFA Research Corner

Strength in Non-QM and SFR Supports Surge in Non-Agency RMBS

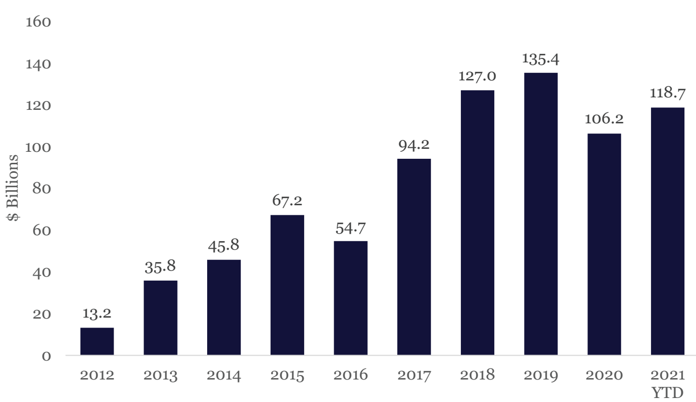
August 12, 2021

WHAT WE'RE WATCHING

Elen Callahan
Head of Research
203.512.0503

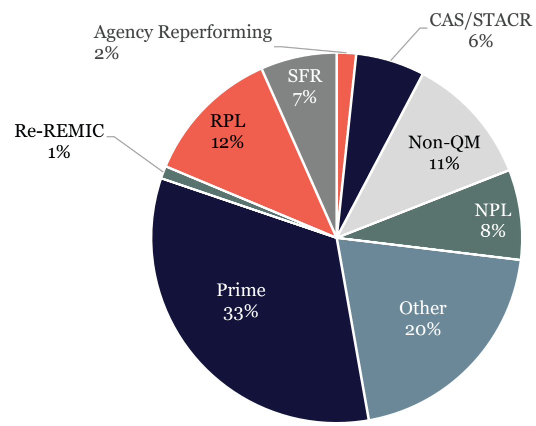
Non-agency RMBS issuance is on track for a new post-2008 record. Year-to-date, new issue has reached $119 billion, surpassing 2020's full-year volume and just 12% below 2019's record year.

Non-Agency RMBS on Track for New Post-2008 Record High



Source: Deutsche Bank, Bloomberg, Finsight

2021 YTD Issuance Led by RMBS Backed by Prime Jumbo Loans



Source: Deutsche Bank, Bloomberg, Finsight

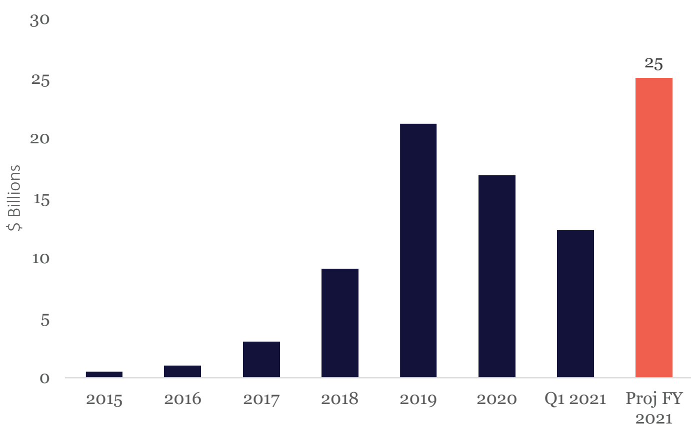
The non-agency RMBS market, also known as the private-label RMBS market, is diverse. The major asset types in this sector are RMBS backed by non-QM loans (mortgage loans that fall outside the CFPB's qualified mortgage and ability-to-repay rules), re-performing/non-performing non-QM loans (also known as RPL/NPL), prime jumbo non-QM loans (high quality loans with large balances), and CAS/STACR (credit risk transfers deals issued by Freddie Mac or Fannie Mae). RMBS backed by single-family rental (SFR) loans, which are secured by a single-family rental property, are also included in the non-agency RMBS category. RMBS backed by prime jumbo loans have led the 2021 surge, contributing $39.1 billion of issuance. RMBS backed by re-performing and non-performing mortgage loans have contributed a combined total of $23.6 billion.

Non-QM RMBS

Securitization backed by non-QM loans has added $13.4 billion to the non-agency RMBS volume so far and is on pace to set a new high. Non-QM issuance had reached $22 billion in 2019, a then-record high for the sector. Before the COVID outbreak, market consensus expected 2020 to surpass 2019's level. By the end of 2020, new-issue volume was $16.9 billion. Although this level was 20% below 2019's, given the dire state of the market at the onset of the pandemic, with many lenders halting origination activity due to liquidity issues, this result was better than expected. With many non-QM lenders resuming normal lending activity and home buyers remaining motivated by still-low interest rates, non-QM originations are expected to revert to normal levels. S&P Global projects that non-QM issuance will reach a sizeable $25 billion in 2021.

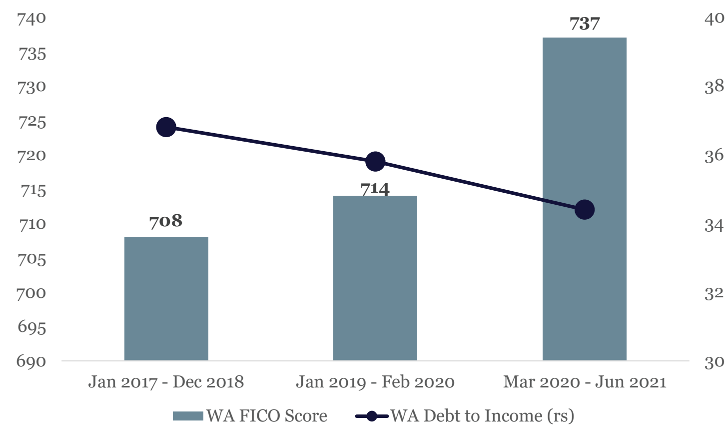
STRUCTURED FINANCE ASSOCIATION

Non-QM Issuance on Track for Record High



Source: Deutsche Bank, Bloomberg, S&P

Non-QM Loan Characteristics by Origination Dates

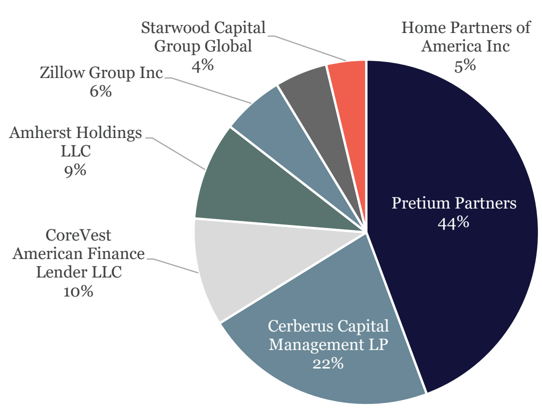


Source: S&P

Single-Family Rental RMBS – Deep Dive

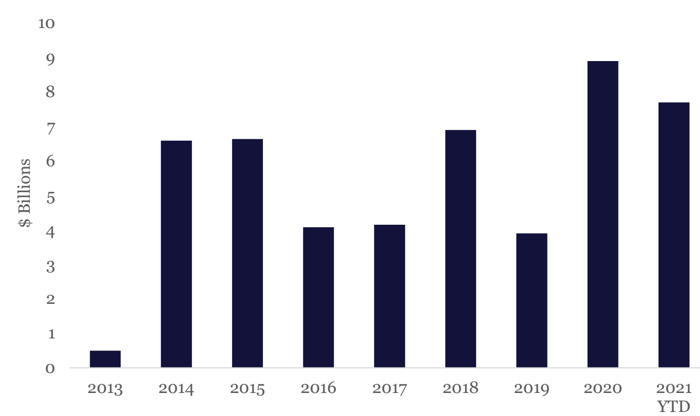
With $7.7 billion of new issuance so far, 2021 is also shaping up to be a record year for RMBS backed by single family rentals (SFR RMBS). At this rate, issuance will handily surpass the $9 billion high reached in 2020. Of note, seven issuers have comprised the market in 2021, so far – Pretium Partners, Cereberus Capital Management, CoreVest American Finance Lenders LLC, Amherst Holdings LLC, Zillow Group, Home Partners of America and Starwood Capital Group Global.

2021 YTD – SFR RMBS Issuers



Source: Finsight

SFR RMBS Issuance History

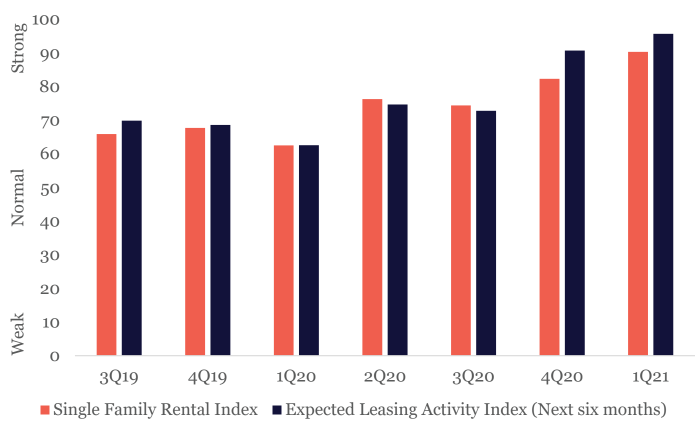


Source: Finsight

STRUCTURED FINANCE ASSOCIATION

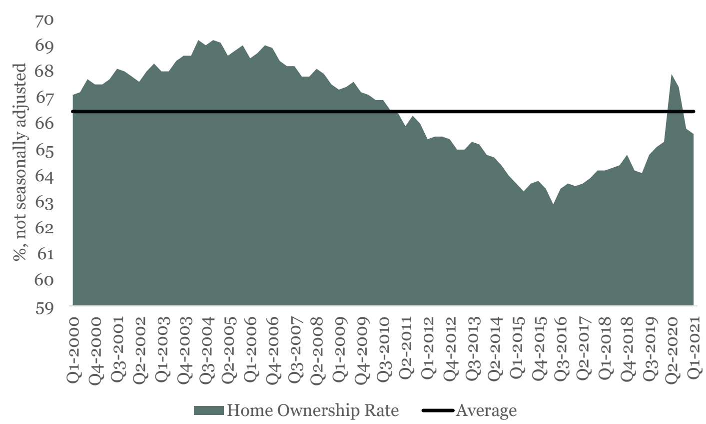
Unlike other RMBS sectors, SFR RMBS issuance ***increased*** in 2020 from previous levels. Demand for single-family rentals was strong during the pandemic as "work from home" situations led many households to leave urban areas. The Single Family Rental Market Index, a proprietary survey that measures the overall health and sentiment of national single-family rental markets using a scale of 0-100, rose from 62.5 in the first quarter of 2020 to 82.3 at year end. This measure, which is based on responses from professionally managed single-family rental operators who collectively manage 194,000 properties in 54 U.S. metropolitan areas, has continued to strengthen and in the first quarter of 2021, this metric stood at an all-time high of 90.3. Survey participants are particularly optimistic about leasing activity in the next six months as evidenced by the Expected Leasing Activity Index. This survey component ended first quarter 2021 at 95.7 up from 62.6 in the first quarter of 2020.

Strong Demand Drives Single Family Rental Market Index to All-Time Highs in 2020/21



This quarterly index and survey of single-family rental operators is a partnership between John Burns Real Estate Consulting (JBREC) and The National Rental Home Council (NRHC).
Source: John Burns Real Estate Consulting LLC

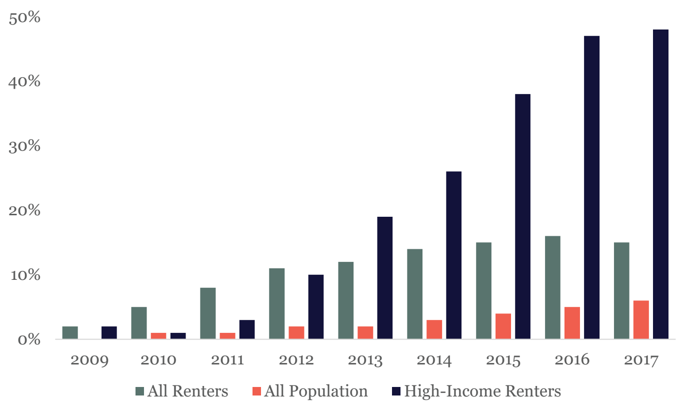
Homeownership Rate



Source: U.S. Census Bureau

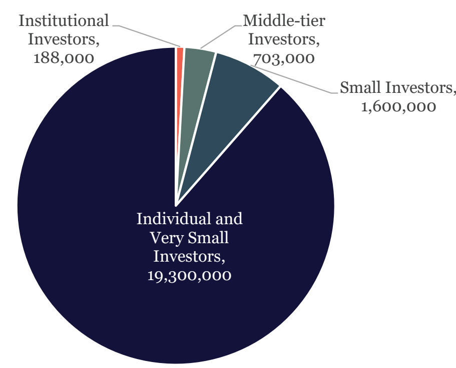
Demand for single-family rentals, which includes properties with up to four housing units, was strong even prior to the pandemic. A changing attitude towards homeownership, as well as affordability and down payment issues, have dampened the rate of homeownership since the 2008 housing crisis. These issues have only been exacerbated during the pandemic. In June, the median existing home sales price had risen 23.4% from a year prior, according to the National Association of Realtors, a significant departure from the period between 2016 and 2019, when home prices rose an average of 5% per year. The steep run-up in home prices has been the result of both rising demand across every buyer segment, including from buyers of single-family rentals, and restricted supply, particularly in entry-level homes. In 2018, Freddie Mac estimated that the housing market needed 2.5 million units to keep housing prices level. By fourth quarter 2020, that number had risen to 3.8 million units. As rising prices translate to larger down payments, many entry-level buyers are turning to the single-family rental market for their housing solutions.

Change in Number of Renters Versus 2008: Growth in High Income Renters Has Outpaced All Renters



Source: [Apartment List](#) using data from U.S. Census Bureau (ACS Microdata accessed through IPUMS-USA database)

Single-Family Rental Properties by Owner Type (2014)



In 2020, institutional investors held less than 2% of the SFR market.
Source: Freddie Mac

High-income households represent the fastest growing segment of the housing market. Between 2008 and 2018, the number of high-income renters grew by two million households, an increase of 48%, according to U.S. Census Bureau data compiled by Apartment List. This far exceeds the 15% growth in the number of all renters and the 6% growth in the total population during the same period. Renting has also become more common for families with children-- DBRS Morningstar reports that 52% of single-family rentals are made to this group-- and rental housing stock has responded to this shift. Between 2008 and 2018, the overall supply of rental stock increased by 13%, with the bulk of growth being led by a rise in single-family rentals, which rose by 18% to 15.5 million units, and large higher-end multi-family rental stock, which rose by 31%, according to a Harvard study.

The surge in demand for single-family rentals in suburban areas during the pandemic has also resulted in an increase in the number of homes built specifically for the single-family rental market, which reached a record high of 50,000 units. Although this constituted only 12% of the total rental construction in 2020, it is more than double the level of 2011. Typically, more spacious than newly constructed multifamily rentals, these built-to-rent homes also address the rising demand from high-income renters.

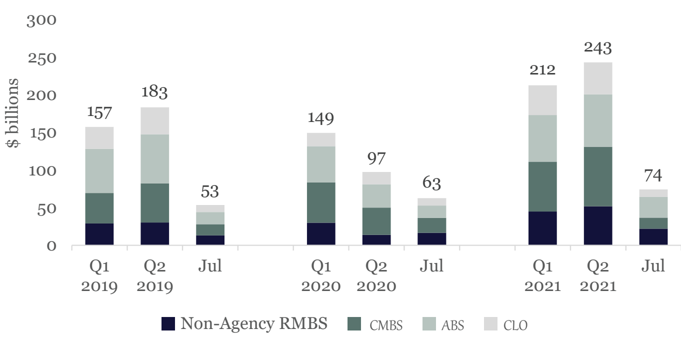
Historically, single-family rentals have been held by individuals or small investors. In 2014, Freddie Mac estimated that 95% of the single-family rental market was held by individuals and small investors; 88% of these investors held fewer than 10 homes. Institutional buyers entered the market following the 2008 housing crisis, acquiring homes through foreclosure auctions and short sales. Institutional buyers only held 1%, or 188,000 properties, of the single-family rental stock in 2014. Despite warnings that institutional buyers have been crowding out first-time buyers, today institutional buyers hold 276,000 properties, **or less than 2% of the 2020 market**.

75% of these 276,000 institutionally held single family rental stock properties are held by five investment firms-- Invitation Homes, American Homes 4 Rent, Progress Residential, Cerebrus Capital Management and Main Street Renewals. Since 2013, larger institutional owners have been able to tap the securitization markets for funding. So far, the securitization market has financed a total of $48 billion of single-family rental purchases since 2013. As of Q1 2021, approximately $25 billion SFR RMBS remaining outstanding.

STRUCTURED FINANCE ASSOCIATION

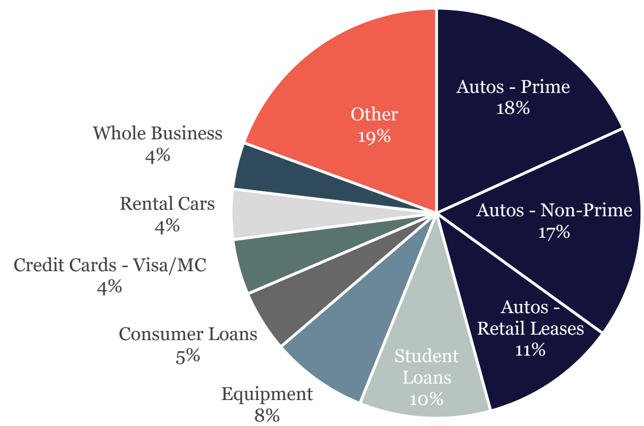
MARKET SUMMARY

Issuance* for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($530 Billion) Versus 2019, 2020



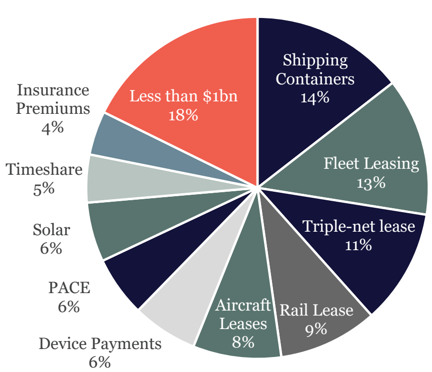
*Revised to include Agency CMBS issuance and updated Non-Agency RMBS.
Source: Deutsche Bank, Market Compilation

ABS Only 2021 YTD: $155 billion



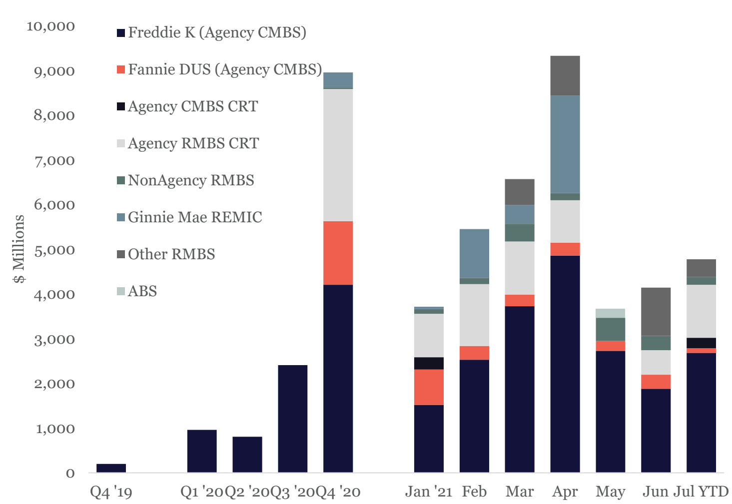
Source: Deutsche Bank, Market Compilation

Other ABS Only 2021 YTD: $31.9 billion



ABS with YTD volume that is less than $1 bn YTD include ABS backed by Canadian credit cards, venture debt, data centers, auto dealer floorplan loans, small business loans, tax liens, commercial loans, secured fund fee, oil contracts, UK credit cards, litigation funding, retail credit cards.
Source: Deutsche Bank, Market Compilation

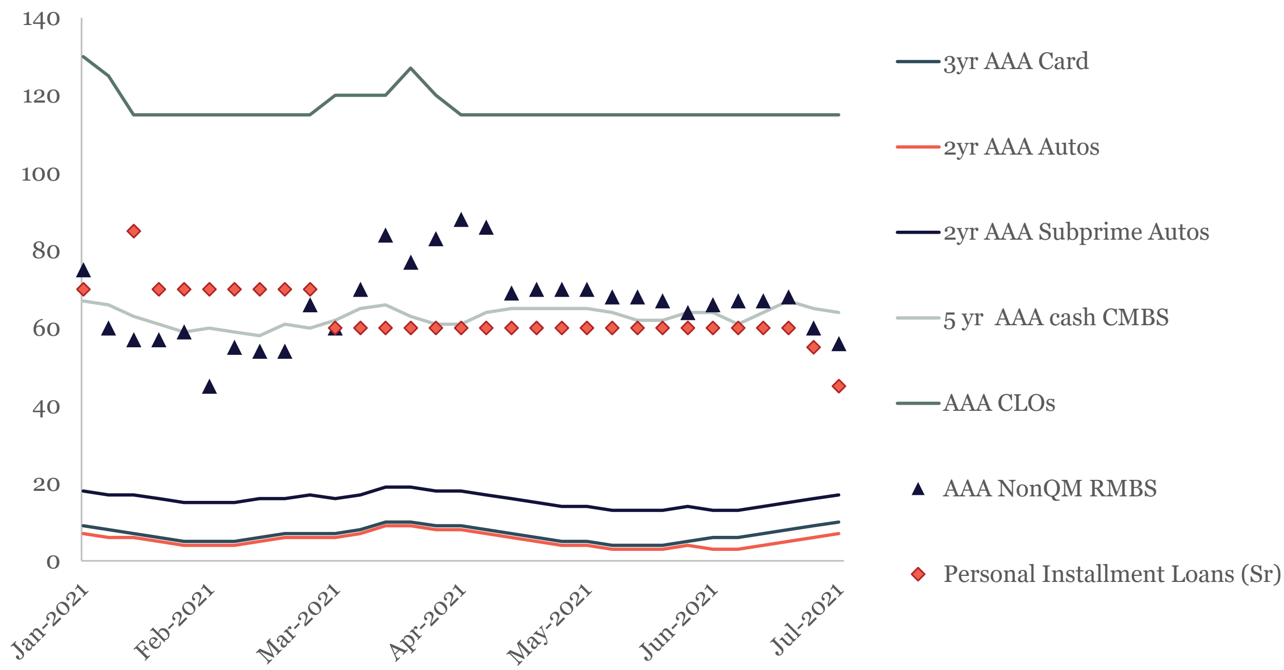
SOFR (30 Day Average) Securitizations 2019 to 2021 YTD: $51 billion



Other RMBS includes mortgage insurance-linked securities.
Data begins Q3 2019.
Source: Market Compilation

STRUCTURED FINANCE ASSOCIATION

Secondary Market Bid-Ask Spreads (BP)



Secondary Market Bid-Ask Spreads		
(bps)	30-Jul	23-Jul
3yr AAA Card	10	8
2yr AAA Prime Autos	7	5
2yr AAA Subprime Autos	17	15
5yr AAA Cash CMBS	64	67
AAA CLOs	115	115

Source: Market Compilation