



BUILD-TO-RENT

A TREND FUELED BY THE PANDEMIC AND INTEREST RATES

Build-to-Rent (BTR) communities are a growing trend in the multifamily housing market. The pandemic has boosted BTR's popularity as people prioritize living and workspace quality, and many are priced out of buying homes due to interest rates. An estimated 22 million people now live in manufactured homes in the United States. As millennials grow into life stages that require the space and benefits provided by single-family homes, demand for BTR communities is projected to significantly increase. In this special report, we will take a closer look at the data and trends behind this expanding property sector, exploring the current market dynamics and potential investment opportunities.

The Build to Rent Community Overview

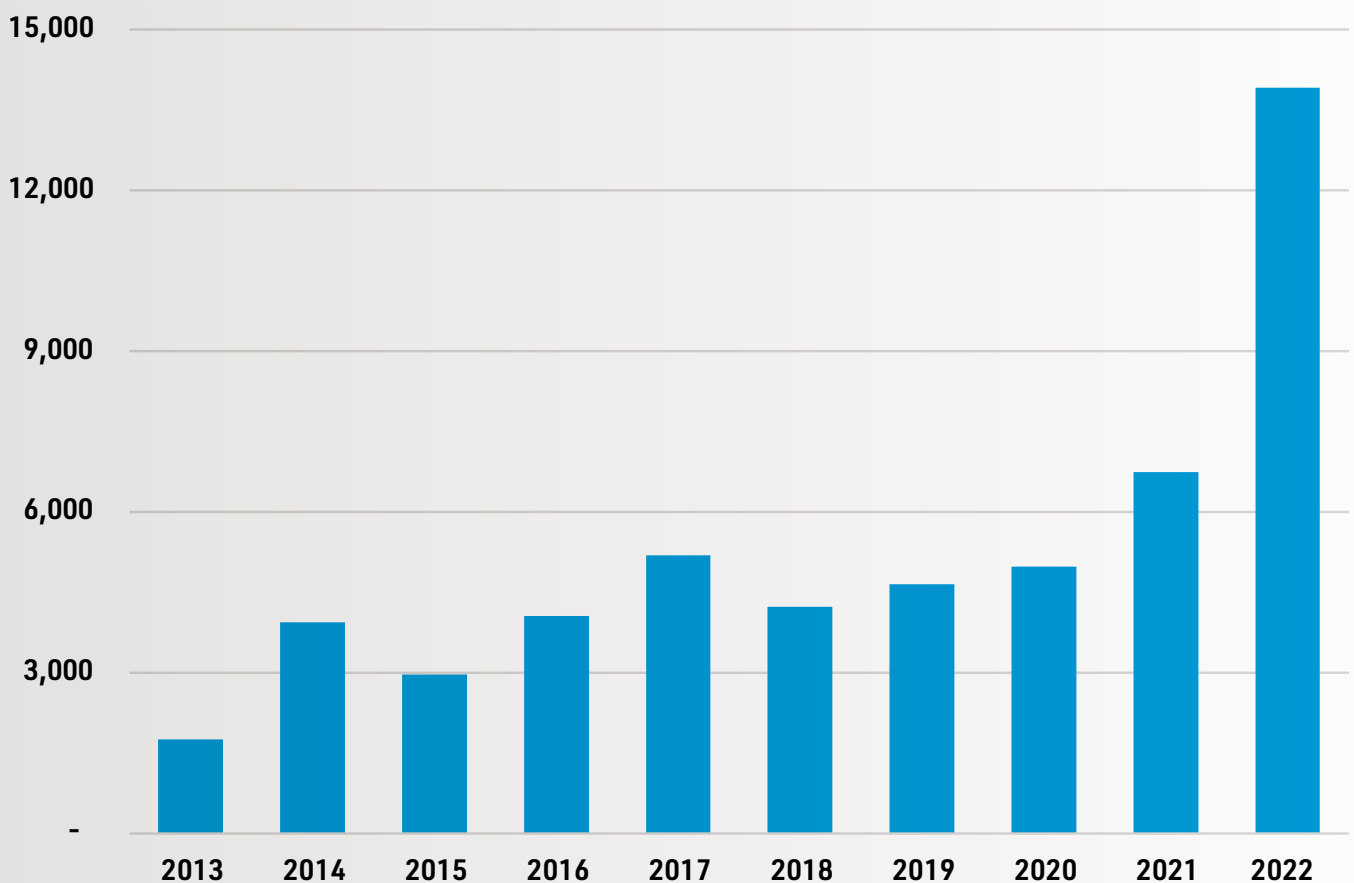
The multifamily market has seen significant growth in the past several years, and along with that growth has come a significant change in the communities themselves, including the advent of the build-to-rent (BTR) option. The BTR style is typically defined as detached, smaller single-family residential or attached townhouse-style units in gated communities. It is also a common for BTR units to contain attached or detached garages, although this is not necessary for a community to be considered BTR.

As a side-effect of the COVID-19 pandemic, working from home became a very popular way for employers and employees to navigate the risks of the pandemic. This gave employees much more freedom in terms of where they could work, leading many to move. As a result, people began to put more of an emphasis on the quality of their workspace and living spaces. The BTR style became more attractive to those in a position to work from home. The BTR style gives renters all of the benefits of an apartment

As millennials grow into life stages that require the space and benefits provided by single-family homes, demand for BTR communities significantly increases.

Rising market prices and competition due to low interest rates and out of state investors priced many first-time home buyers out of the housing market in 2021 and early 2022. This forced many who were looking to buy homes to become disheartened renters. According to Forbes, "A staggering 60% of Americans cannot afford to buy a home. The BTR industry provides this 60% with a desirable alternative. As millennials grow into life stages that require the space and benefits provided by single-family homes, demand significantly rises." The article states that 36 percent of households currently renting have left apartment style and moved into detached homes for rent. The following chart indicates the rate of single-family rental construction on a national level.

Build-to-Rent Homes Under Construction in U.S. Markets



This further bolstered the attractiveness of BTR communities. They can act as a substitute for renters seeking the comfort and privacy of a single-family property, while still wanting the freedom and mobility to jump into the housing market at any given time or move to a different area, if necessary.

According to a BTR study from ROI Properties, BTR communities in the Phoenix market had a higher occupancy rate and average rent compared to traditional multifamily properties. According to builder online, rents have also increased more than normal. The website notes, "Single-family rents started 2022 up 12.6%, the largest increase in 17 years, according to CoreLogic, and have even outpaced similarly surging apartment rent gains during the pandemic." The same article mentions record development of BTR units: "According to data from home building consultancy Zonda, publisher of Builder magazine, a record 7,724 BTR units were completed in 2021, with another 13,981 on the way this year. That will add to the 45,804 units built since 2000. According to the RentCafe blog by property management software firm Yardi, there are now about 90,000 existing single-family

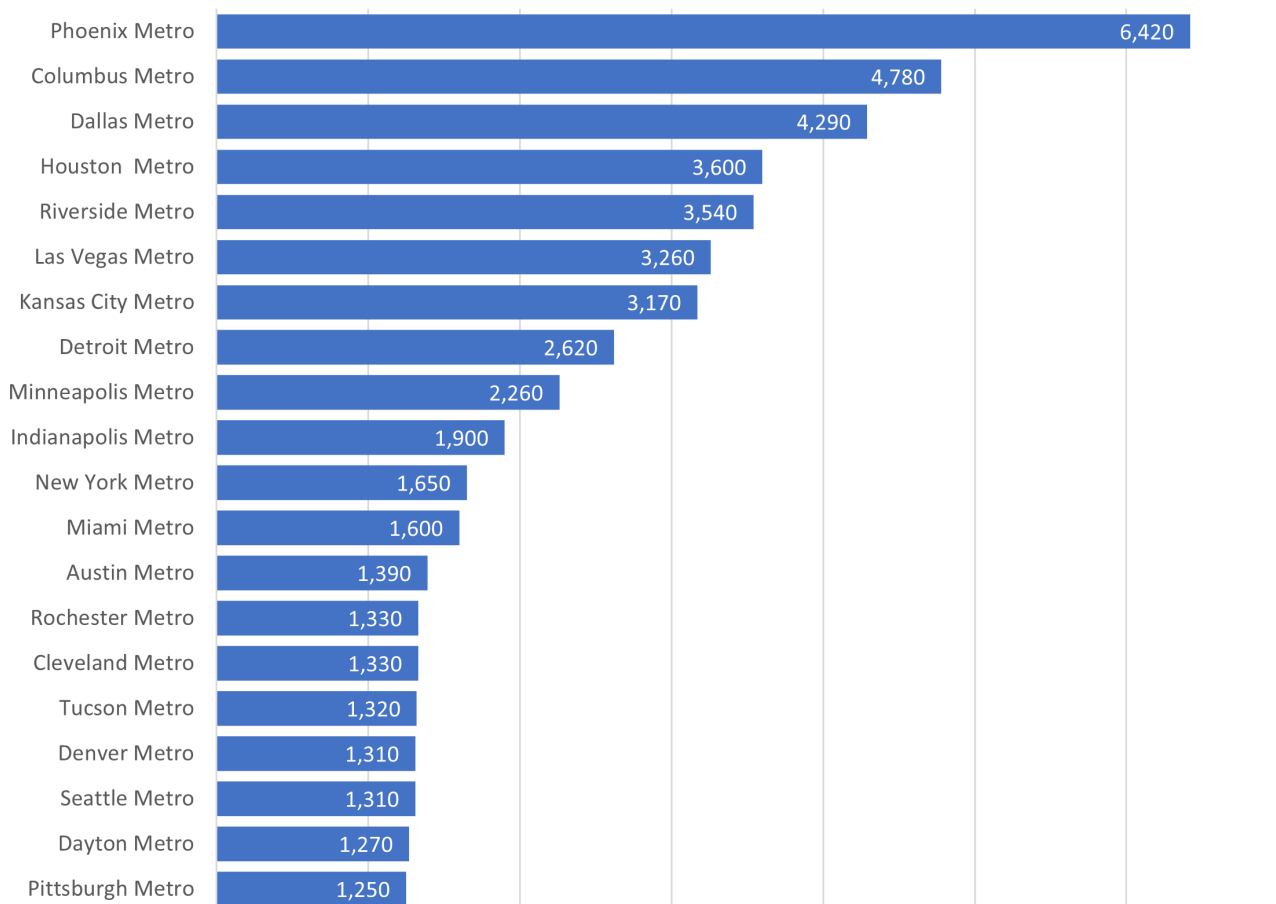
homes in the U.S. in nearly 720 communities designed specifically for renting."

The increase in interest rates has forced more people into the rental market. Previously, renting was a choice for most people. But now, for many households, it is the only option. According to the Mortgage Bankers Association, the average interest rate for a 30-year mortgage, with a balance of \$647,200 or less, was 7.06% as of October 2022.

With so many benefits for renters and investors, developers such as NexMetro, Walton Global, American Homes 4 Rent, Empire, and Christopher Todd Communities have become active in national and local markets. These companies are at the forefront of the BTR community trend. Investors should keep an eye on them for potential partnerships.

As demonstrated in the following graph, there were an estimated 49,600 BTR units, as of 2021 (according to Yardi Matrix data). These homes are located throughout the United States but appear to be in high demand.

Top 20 Metros with the Most Single-Family Rentals





Things to consider:

While BTR communities may seem very attractive to investors due to their high occupancy rates and higher than average rental rates, it's important to consider the impacts and costs to develop these communities. We typically define BTR communities as having a low density across a multiacre site (less than 6 dwelling units/acre), which means a larger than average tract of land is necessary to develop these communities. In addition, the nation has reached historic highs in labor and material costs, due to shortages in the industries and shipping issues. Developers also face issues of getting the properties entitled, which can be a lengthy and costly process. All of these challenges can be difficult for new and inexperienced investors to tackle.

The BTR style has proven to be attractive to both renters and investors.

Rebusiness online also notes that the level of development varies by region. The majority of the development, the site notes, is in the South region where expansion is continuing: "In 2021, approximately 60 percent of the starts occurred in the South region, up from about 45 percent of the national total a few years ago."

FortuneBuilders offers several reasons why BTR is growing in popularity. One factor: The demographics of renters are skewing older due to student loan debt and higher housing prices. Another factor that appeals

to investors: BTR developments and units are easy to sell, as long as they are individually platted. They also tend to have more long-term tenants who can be charged for rent because of the unit features and neighborhood community. According to Than Merrill from [fortunebuilders.com](https://www.fortunebuilders.com), "Rental rates for single-family homes are growing almost 50% faster than rates for multi-family buildings. You can also charge a lot more for the same number of bedrooms."

For renters, BTR communities offer amenities that are similar to other apartments, but individual units typically have better features such as garages and private backyards. Another benefit: Renters do not have to do their own maintenance the way homeowners do; property managers handle it. One more major draw for renters is the sense of community that many other multifamily properties cannot offer.

Multi-Housing News cites occupancy rate as a positive sign for BTR properties, "On a national level, existing BTR communities were 97% occupied at the end of 2021 – while apartments were 95 percent occupied – demonstrating renters' preference for living in a house rather than an apartment, a trend that picked up pace during the pandemic. "As we see building costs increase with rising interest rates, we may see many new subdivisions pivot from owner occupation to BTR communities. So long as these developments contain 3- and 4-bedroom units, we anticipate a continued positive trend for BTR statistics when compared to traditional multifamily alternatives.

SOURCE & REFERENCE

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Top 20 Metros with the Most Single-Family Rentals – Source: RentCafe Analysis of Yardi Matrix Data

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ABOUT VIEWPOINT

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