

# Single-Family Rental (SFR) & Build-to-Rent (BTR) Development

*Growing Demand for the New Wave of Rental Housing*



# Executive Summary

Growing interest from investors in the stable risk-adjusted returns available in the multi-family space have cemented the sector's position as the leader of the four major product types for capital inflow since 2015. Although sales growth has been strong, acquisition demand is outstripping the supply of properties actively being marketed for disposition, resulting in large amounts of capital being sidelined. A potential outlet for this pent-up demand has appeared with the expansion of institutional capital into the single-family rental space.

Coming out of the housing bubble, when single-family prices were depressed, value investors snapped up homes that were priced 50 to 60 percent below the market peak. With the high number of foreclosures, the new investors had little trouble attracting renters for their newly acquired investments. The plan for many of these investors was to hold until prices recovered and then sell to monetize their gains, but some,

upon seeing the stable and steady returns offered in the single-family rental sector, adjusted their strategy to a long-term hold approach. Because of the success of these early investors, new institutional capital has dramatically increased its interest in the sector.

While there are some similarities between traditional institutional multi-family and single-family rentals, there are also significant differences that play key roles in strategizing and decision-making. The following report will expand your knowledge of the single-family rental market and will provide essential insights for investment strategies for single-family rental (SFR) and built-to-rent (BTR) development.



# Strong Fundamentals and Opportunity for Institutional Capital

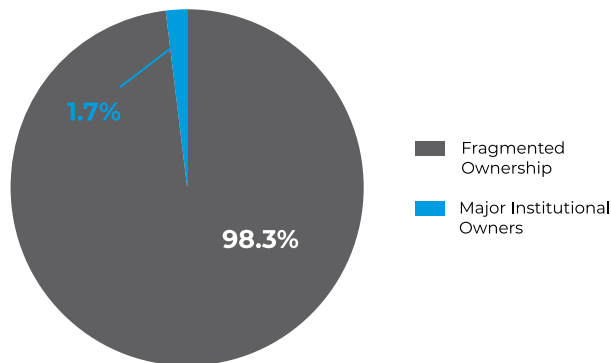
## Single-Family Rental

- Individual rented homes or condo units in owner occupied neighborhoods
- Mostly small private investors – Institutional capital owns less than 2% of inventory
- No on-site property management or community amenities
- Lack of commonality for appliances and mechanical systems creates maintenance challenges
- 15.1 million occupied units in 2019 (34% of all rental housing units)

## Built-to-Rent

- Master planned communities or subdivisions platted for rent
- Large single-family, townhomes or “horizontal” free standing units
- On-site property management, community amenities and possibility gated
- Institutional and/or public ownership
- Averaging 40,000 starts over past 5 years (4.8% of overall starts)

## Minimum Institutional SFR Ownership Offers Investment Opportunities



## SFR Absorption Has Outpaced Apartments over the past 15 years

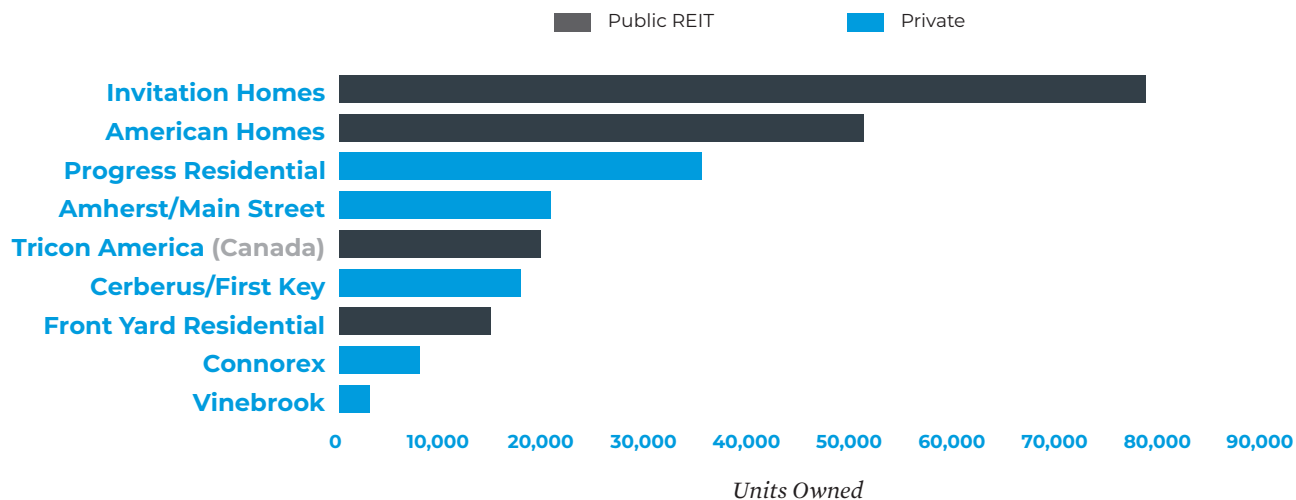


# Fertile Ground for Institutional Capital Expansion into Sector

## Major Owners and Announced Investments

Over the past 10 years, the single-family sector has witnessed a dramatic rise in institutional capital inflow and acceptance into the public markets.

New investors are also looking to place capital into the sector given the positive outlook for revenue growth and rising demand.



### Firms That Have Announced Future Investment in SFR/BTR

Lennar, Trammel Crow, Christopher Todd Communities, Toll Brothers, J.P. Morgan Asset Management (JV with American Homes 4 Rent), Blackstone (JV with Tricon), PCCP, Carlyle





## Rise of BTR

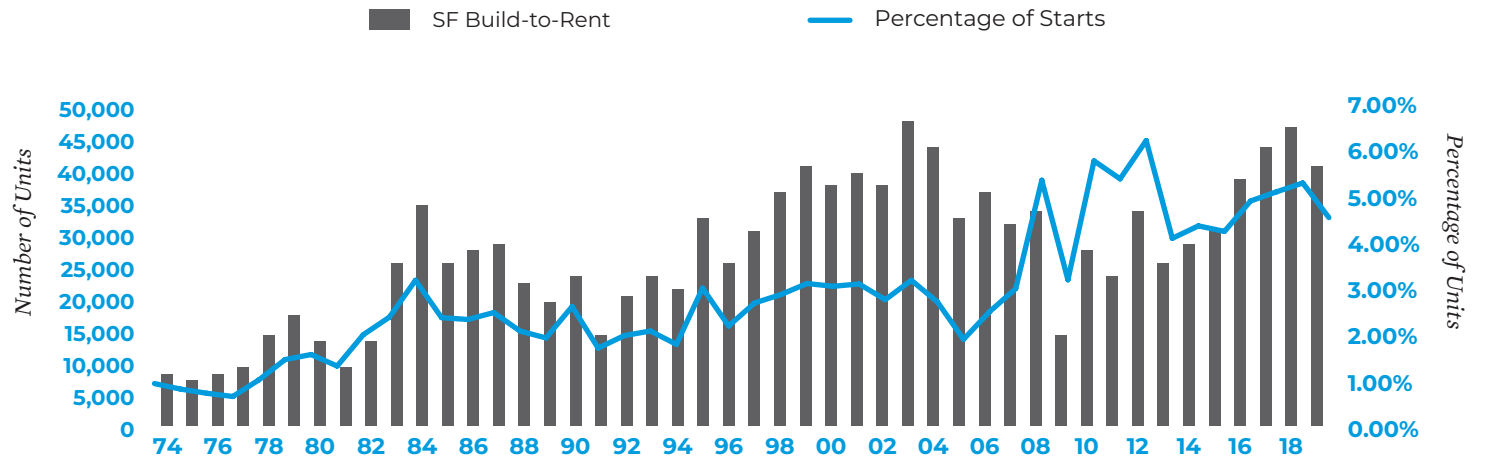
Different types of rental housing have different demand drivers. Demand for single-family rentals is driven by families and households with children, whereas singles fuel demand in the multi-family segment.

Single-family builders, witnessing strong demand for rentals in their space, have increased the number of homes built specifically for renting.

This increased production of houses for rent has been met by healthy absorption.

The rising inventory of newly built housing not only expands the potential for institutional buyers to enter the sector, it also satisfies investor desire to purchase newer product.

## BTR Starts Reaching New Percentage Highs to Meet Rising Demand



# Composition of Rental Housing Market

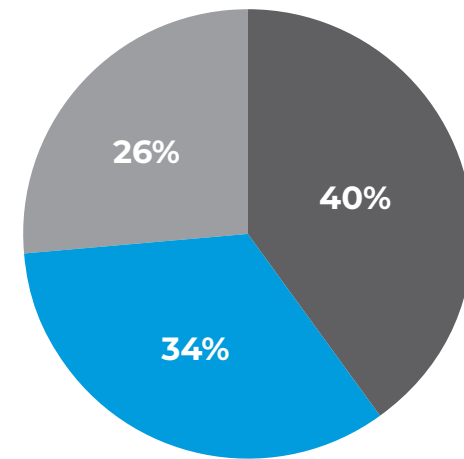
## Industry Evenly Distributed

The national inventory of rental housing stretches from high-rise apartment buildings in urban cores to duplexes and three-flats in midwestern cities to four-bedroom suburban homes.

Single-family rentals account for about one third of the rental inventory nationwide. Historically, these units have been individually owned by small private investors.

The housing crash initiated a change in the type of investors purchasing single-family rental properties as institutional capital saw opportunities for strong returns given depressed pricing and steady revenue gains.

Investment Grade Apts.    Single-Family    Less Than 10 Units



Single-Family

15,074,000

Investment Grade Apts.

17,881,693

Less than 10 Units

11,704,307

Total

44,660,000

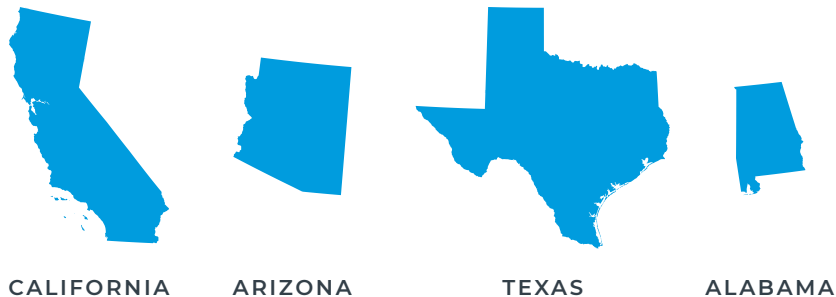
# Attractive Yields and Available Debt Has BTR Transactions Primed for Launch

Transaction activity for horizontal multi-family properties appears poised for rising volume this year as more developments come online and stabilize. Growing investor interest in the sector combined with positive fundamentals should create increased sales velocity and transaction volume throughout 2021.

Recently sold BTR assets across the nation have seen cap rates in the mid to high 4 percent range which is comparable to newer suburban garden properties.

Permanent financing for recently sold projects has been provided through both CMBS and one of the GSEs. The GSE doing financing has not issued specific underwriting standards for BTR properties above their base standards for traditional multi-family properties as long as the property resides on the same tax parcel. Thus, for BTR properties that are stabilized and show positive operational results, financing is readily accessible.

## BTR Transaction Activity Has Been Concentrated in Sunbelt & Western Markets



## 2020 Average Price Per Unit



BTR PRODUCT  
\$250,000

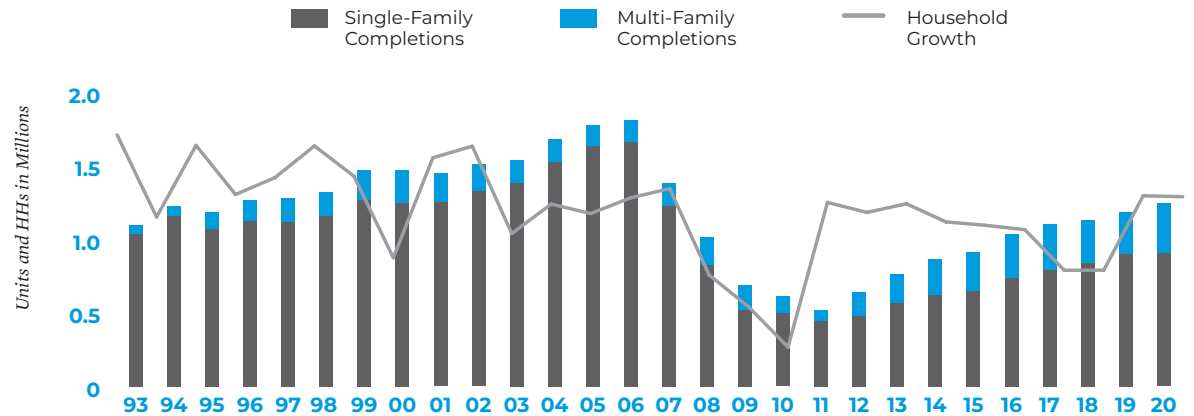


GARDEN PROPERTY  
\$210,000

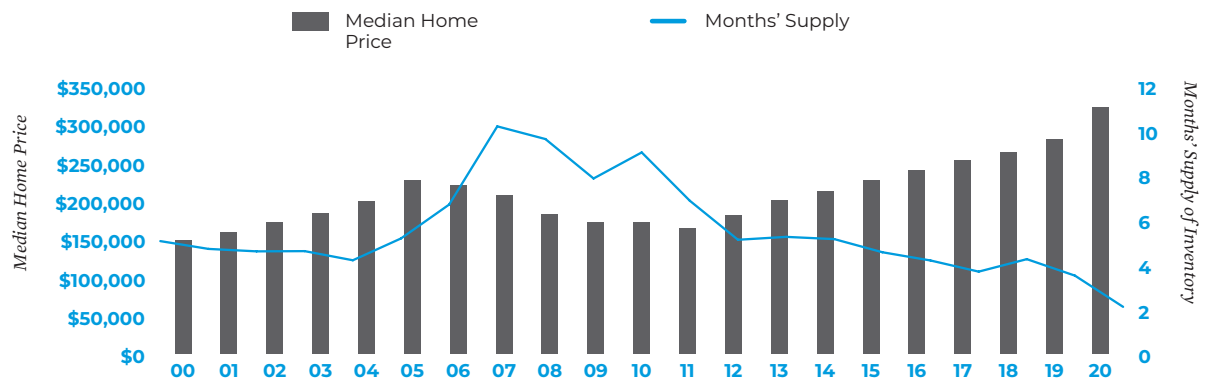
# Current State of the Housing Market

## Tight, Expensive and Limited Inventory

In just 13 years, the nation went from having an oversupply of housing to a shortage across all product types. After the collapse of the housing market, which began in 2007, new construction of both single- and multi-family housing declined significantly. Until recently, supply remained well below the level needed to meet rising demand.



As single-family builders remained cautious throughout the 2010s, home buyers pushed down the existing available inventory of homes to an all-time low. This led to rapid price appreciation, with the national median home price rising 96 percent between 2011 and 2020.



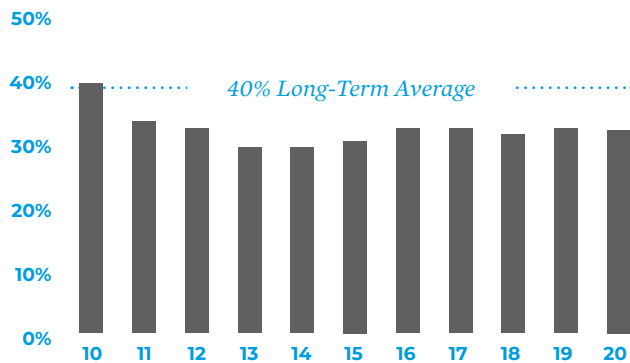


# Significant Barriers to Entry Holding Back First-Time Homebuyers

The percentage of first-time home buyers dropped dramatically after the Great Recession, and although it has recently begun to rise, it remains below the pre-recession level of 40 percent.

There are several contributing factors negatively impacting millennials' ability to make the jump from renting to owning: high student loan debt placing negative pressure on finances, limited wage growth and tougher underwriting standards, just to name a few.

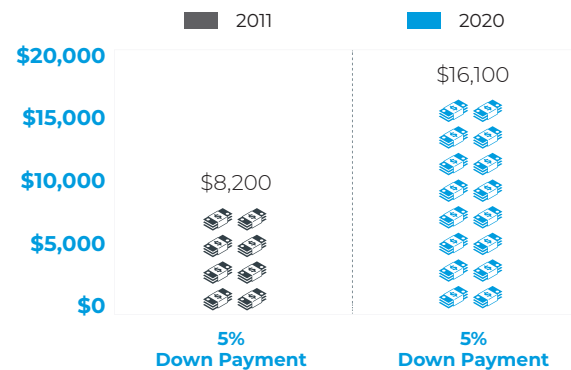
## Percentage of First Time Homebuyers



However, the true barrier for the majority of potential first-time home buyers remains the down payment. Putting down just 5% for the national median-priced home would equal \$16,000 in cash, not including other closing costs, and [the Federal Reserve reports that households under the age of 35 have on average less than \\$5,000 in savings](#).

All of that adds up to a whole lot of renters nationwide.

## Average Down Payment 2011 vs. 2020

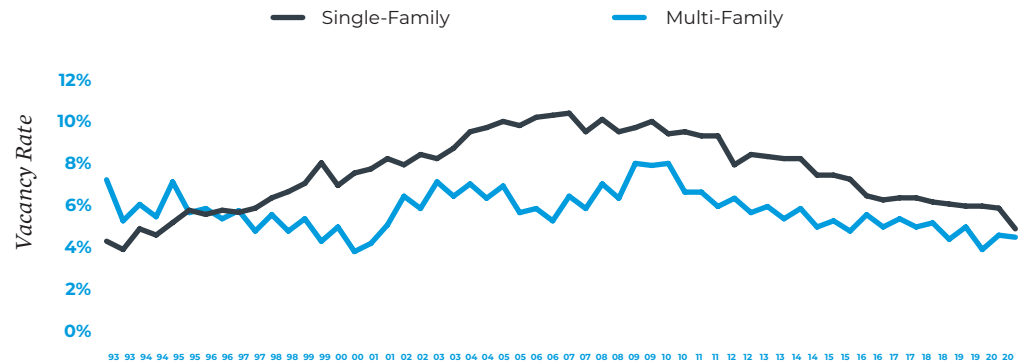


# Strong Demand and Tight Vacancy Driving Strong Single-Family Rent Forecast

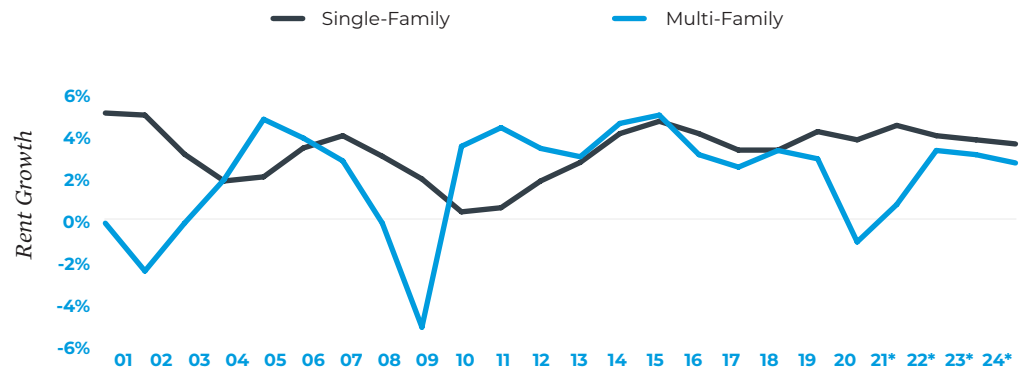
Single-family and multi-family vacancy rates don't always move together, as seen in the historical data, but they both currently sit below 5 percent. These two rental types have separate demand drivers and typically do not compete head-to-head for renter households. Rent prices for single-family over the past 20 years have outperformed both inflation and the institutional apartment market. From 2000 to 2020, single-family rent averaged 3.1 percent growth and never decreased.

Forecasts for the next four years show single-family rentals once again leading the multi-family rental space.

## Single vs. Multi Vacancy



## Multi-family vs. SF Rents



Strong Demand and Tight Vacancy Driving Strong Single-Family Rent Forecast

# Conclusion

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The single-family rental(SFR)and build-to-rent(BTR) categories offer investors a compelling and complementary investment sector to multi-family rentals. SFR/BTR assets allow investors to take advantage of the strong demand for rental housing in a new and growing collection of potential acquisition opportunities.

Today's single-family rental sector has many of the same characteristics as the multi-family market had 50 years ago: A small, disconnected ownership base; limited to no institutional ownership; and enormous potential for controlling costs plus improving rent growth with modern property management oversight.

For those institutional investors willing to be early movers into the SFR/BTR sector, the upside return potential and long-term growth prospects appear very strong.



IPA is a leading commercial real estate investment services firm, renowned for its capital markets expertise, industry-leading technology and individualized approach.

# Single-Family Rental (SFR) & Build-to-Rent (BTR) Development

Our team of specialists dedicated to single-family rental (SFR) and build-to-rent (BTR) have deep knowledge of this unique sector and the facets that set it apart from traditional multifamily and other rental housing. Our deep expertise allows us to help our clients develop informed strategies to leverage the steady returns offered by this property type.



**Mark McCoy**

Director, IPA Single Family  
Rental/Build To Rent  
[mmccoy@ipausa.com](mailto:mmccoy@ipausa.com)



**John Sebree**

Director, IPA Single Family  
Rental/Build To Rent  
[jsebree@ipausa.com](mailto:jsebree@ipausa.com)



**Jay Lybik**

Vice President,  
IPA Research Services  
[jybik@ipausa.com](mailto:jybik@ipausa.com)



**Evan Denner**

Executive Vice President,  
Head of Business  
Marcus & Millichap Capital Corporation  
[evan.denner@marcusmillichap.com](mailto:evan.denner@marcusmillichap.com)



**Paul Lewis**

Senior Vice President,  
National Director of Agency Programs  
Marcus & Millichap Capital Corporation  
[paul.lewis@marcusmillichap.com](mailto:paul.lewis@marcusmillichap.com)



**Steve Gebing**

Executive Director  
[sgebing@ipausa.com](mailto:sgebing@ipausa.com)



**Shelton Granade**

Executive Director -  
Institutional Property Advisors  
[sgranade@ipausa.com](mailto:sgranade@ipausa.com)



**Drew Kile**

Senior Director  
[dkile@ipausa.com](mailto:dkile@ipausa.com)

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