NEW GROWTH LIVING

RENTABLE LIFESTYLE COMMUNITIES

New Growth Roger Hanks Development **October 1st, 2021**

Purpose Built Single Family Rental Industry

To address recent comments and questions from City of Dripping Springs stakeholders New Growth compiled industry publications that provide background and insight on the purpose built single family rental (SFR) industry. These articles highlight the following –

1. SFR is a well established residential land use that has been around for a long time. It continues to grow and evolve with increased consumer demand and more sophisticated developments.
2. These communities are institutionally owned and professionally managed. The industry leading expert John Burns Real Estate Consulting explains, "Dedicated single-family rental neighborhoods of +/- 100 to 300 units are institutional-level multimillion dollar investments that will be cared for and nurtured to increase in value. Maintenance will be better than older 'mom & pop' rental homes scattered in traditional communities."
3. There is a substantial number of purpose built SFR homes nationally and in Texas and those figures will increase in the near and long term. According to the Yardi Matrix SFR sector bulletin there's 13,187 purpose built single family rental units actively under construction nationally. These communities are "concentrated in the Southwest, Midwest and Southeast" and "some 12% of new single-family construction in 2021 is being done for rentals." That is in addition to the estimated 96,000 existing purpose built SFR units.
4. Existing purpose built SFR communities are in Austin, San Antonio and surrounding cities such as Leander, Bee Cave, Bastrop, Pflugerville, Georgetown, and Kyle. Examples are highlighted in the Urban Land Institute rental housing publication and Austin Business Journal spotlight article on the residential housing sector. The consumer demand from residents is evident and will become an increasingly important part of the region's housing stock.

The following articles have been attached for review with key excerpts highlighted –

1. John Burns Real Estate Consulting Market Overview December 2020
2. Yardi Matrix Bulletin SFR Sector Industry Overview July 2021
3. Urban Land Institute Rental Housing in America 2021
4. Austin Business Journal Single Residential Real Estate Central Texas May 2021

New Growth leverages decades of multifamily, single family, and master planned community expertise to approach purpose built SFR with a best-in-class delivery method. This involves utilizing successful elements from the industry and blending into a single cohesive project. This results in the greatest experience for residents and value for the City they are located. That is part of what makes the Roger Hanks development such a tremendous opportunity and exciting potential addition to the community.

Key Attributes Supporting Purpose Built SFR Development

The purpose of this document is to provide market context for the opportunity to develop purpose-built single-family build-for-rent homes. Understanding the renter profile and how these communities are managed can help overcome these objections.

Key attributes supporting purpose built single family rental (SFR) development are as follows:

1. Dedicated single-family rental neighborhood of +/-100 to 300 units are institutional-level multimillion dollar investments that will be cared for and nurtured to increase in value. Maintenance will be better than older "mom & pop" rental homes scattered in traditional communities.
2. Homes in dedicated single-family rental communities look the same as for-sale homes, and most prospective home shoppers are not aware that the neighborhoods have rented homes.
3. Hundreds (if not thousands) of rental homes exist in SFR communities the most popular, top-selling master planned communities in the country – without impacting new home sales
4. This new product niche fits between multifamily rental homes and for-sale single-family homes and allows developers to sell land faster than proforma and at a competitive price per acre.
5. Single-family home renters are usually more affluent than apartment renters. Many are "renters by choice" with household incomes often above $100k. In its most recent earnings call, Invitation Homes reported "residents moving in over the last 12 months had an average income of nearly $110K, covering rent by 4.8x."
6. Purpose built SFR helps developers of MPCs and other communities sell land faster and get more homes occupied earlier. This can help accelerate retail development.
7. Rental homes can provide more-affordable housing alternatives at a time in the market cycle where many housing markets are pushing the limits on affordability of for-sale homes. We expect homeownership affordability to worsen in coming years due to high price appreciation – this may influence more households to look for single-family rentals as their housing solution
8. Opportunities are not limited to high growth markets – the oldest housing stock is in the Northeast and Midwest and consumers will appreciate homes with modern layouts and technology.

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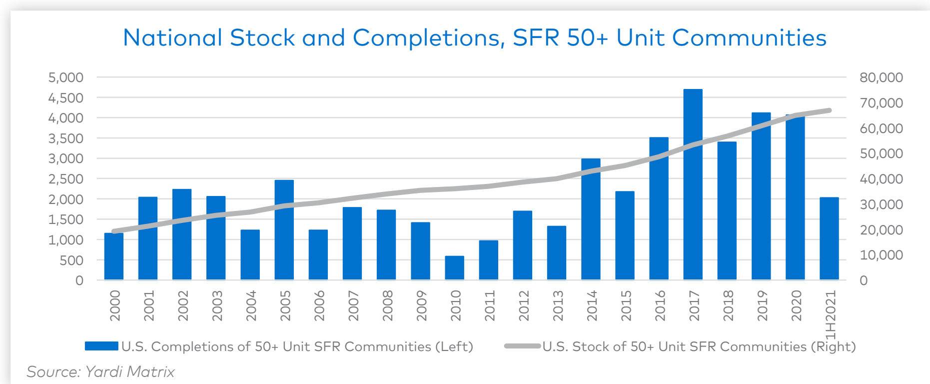
Institutions Are Flocking To Build Single-Family Rentals

The institutionally owned single-family rental market, formed in the ashes of the 2000s housing bubble, has been rejuvenated by COVID-19. The revival comes with a new twist: the build-to-rent segment, in which homebuilders develop single-family homes to rent.

Both the institutional single-family rental and build-to-suit segments gained momentum as a result of the pandemic, which created ideal conditions. Families wanted more space and the privacy of a detached home, but without the inherent limitations of a mortgage and homeownership.

Single-family rentals have long been a major subsection of the housing market, representing about one-third of the 46 million rental homes in the U.S. However, nearly 98% of single-family rentals are operated by mom-and-pop owners. Institutions did not enter the segment until after the Global Financial Crisis in 2008 and remain a small slice of the market.

That is changing, though. The potential for growth has prompted many institutional players to jump into the niche, with more than $10 billion allocated to the sector by institutions over the last few years, according to corporate announcements and news reports.



Source: Yardi Matrix

Increasingly, the way institutions are growing their presence is to build their own communities. Some 12% of new single-family construction in 2021 is being done for rentals, according to John Burns Real Estate Consulting. With so much capital looking to invest in the sector and the demand for rentals rising, we would expect build-to-rents to increase rapidly for at least the next several years.

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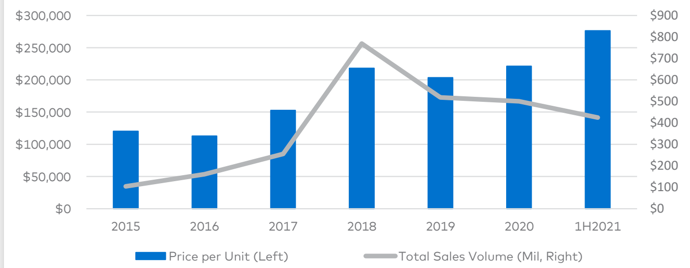
Market Born in GFC; COVID-19 Second Wave

Although single-family rentals have long been a major component of the U.S. housing industry, there was virtually no institutional capital in the segment until the wake of the Global Financial Crisis that started in 2008 after lenders doled out overleveraged subprime loans and sold them to investors in mortgage-backed securities (MBS). As loans defaulted, banks accumulated tens of thousands of foreclosed mortgages. Taking a cue from the strategies used for foreclosed commercial mortgages during the savings & loan crisis in the late 1980s and early 1990s, institutions seized the opportunity to buy the loans in bulk at steep discounts.

Institutional purchases of single-family homes reached 100,000 in 2012 and peaked at 180,000 in 2013. Even at that peak, the institutional market barely topped 5% of the 3.5 million residential home purchases that year, with concentrations in the Southwest and Southeast. The biggest buyers in the 2010-2013 first wave of institutional investment were American Homes 4 Rent, Starwood Waypoint Residential Trust, Colony American Homes and Invitation Homes.

After the initial growth period, when buying loans in bulk was no longer an option, the industry's growth slowed. Investors found it time-consuming and expensive to invest large pools of capital in $200,000 chunks. Plus, the nature of the product creates hurdles that must be overcome. Single-family homes need a steady stream of repairs, and unlike apartment complexes, they're usually not next to each other, making maintenance less efficient.

The sector seemed destined to be an enduring but small niche until it was revived by COVID-19. The pandemic and work-from-home gave young families motivation to leave urban apartments and seek out housing with more rooms and yards



Source: Yardi Matrix

for children. Yet many families who wanted to live in suburban housing did not have the savings or desire to be homeowners. Some detached-home renters lack the means to qualify for a mortgage; others want the flexibility to move.

That created demand for single-family rentals at a time when large amounts of capital flowed to commercial real estate, particularly in multifamily. Acquisition yields for apartments, however, are in the 4% range in most markets. That led deep-pocketed investors who have capital and are looking for potential growth and/or high-yield segments to revisit single-family rentals. Among the institutions that have invested or allocated billions to the sector include BlackRock, Blackstone, Lennar, Brookfield and JP Morgan Asset Management. REITs that have significant holdings of SFRs include Invitation Homes, American Homes 4 Rent and Tricon Residential.

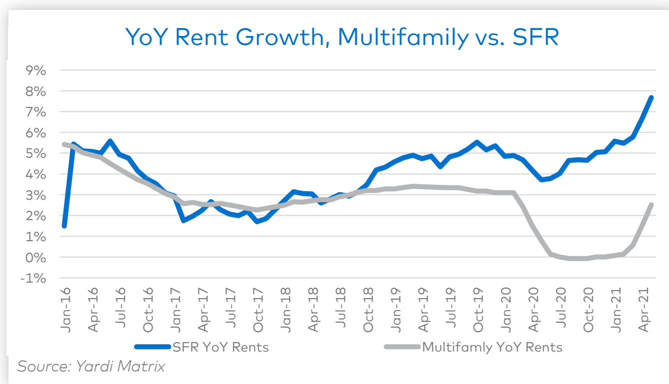
Merely having capital doesn't solve the issue of scale, though. Since loan foreclosures remain rare, assembling portfolios must be done either through one-off home acquisitions or through new construction. An increasing number of SFR owners are opting to build single-family portfolios to rent.

There are hurdles to build-to-rent, including finding enough land to support the construction of a large number of adjacent homes. SFR tracts tend to be in far-flung suburbs, since few cities and inner-ring suburbs have the vacant land necessary. The advantages of build-to-rent include the ease of

managing properties close together, with the operator able to build to their own specifications and quality level. In addition, many renters prefer a new home and are willing to pay higher rent for it.

Regional, Market-Level Disparities

One of the main arguments for SFRs is performance, which has been very good in recent years. The review of the 65,000-plus properties in our database indicates that occupancy rates and rent growth have been robust for most of the past decade and rent growth has exceeded multifamily in recent years.



Source: Yardi Matrix

Since the beginning of 2016, the average SFR rent nationally has increased by 24.1% to $1,691, according to Matrix data. Unlike multifamily, which saw rents drop during the pandemic in some markets—particularly the urban submarkets in gateway metros—SFR rents accelerated over the past year. Through mid-year 2021, SFR rents were up 6.4% nationally (all data cited is Yardi Matrix). That's after rent growth of 5.3% in 2020, 5.2% in 2019, and 3.7% in 2018. Occupancy rates in our portfolio have been steady and were 94.3% at mid-year 2021. Rent growth over the last two years generally has been strongest in secondary and tertiary markets, where the most stock is situated.

Unlike other commercial property types, there is very little SFR stock in the Northeast and in primary metros, for several reasons. One is that the original institutional involvement was concentrated in areas where there were bulk foreclosure sales. That is easier to accomplish in some states than others, due to how the foreclosure process is operated and the fact that for economic reasons some metros saw a larger concentration of foreclosures during the GFC.

Another issue is the availability of land. Primary markets such as New York, Boston, Chicago and San Francisco have very few of the large plots of land needed to build complexes with dozens of single-family homes. SFR stock is concentrated in the Southwest, Midwest and Southeast. Metros such as Phoenix that have huge expanses of available land present much more of an opportunity for single-family rental communities.

The regional disparity is reflected in data on properties under construction. Of the 12,246 SFR units under construction in 50-plus unit communities, more than two-thirds (8,491) are in secondary markets and the rest (3,755) are in tertiary markets. No SFR communities are being built in gateway metros.

By region, the Southwest (4,896) and Southeast (3,978) have by far the most units under construction, trailed by the Midwest (1,716) and West (1,522). The number of units being built in the Northeast (134) is negligible. Developers with the most SFR build-to-rent communities under construction are American Homes 4 Rent (1,603), NexMetro Communities (1,336) and Redwood Living (1,067).

Phoenix has both the most existing SFR properties in 50-plus unit communities and the most such properties under construction. Phoenix has nearly 6,000 existing SFR communities and more than 2,500 under construction. Other metros with the most existing units in large communities are Columbus (4,300), the Inland Empire (2,500), Detroit (2,500) and Kansas City (2,200). Other metros with the most SFR communities under

construction are Jacksonville (766), Charlotte (719), Houston (644) and Atlanta (544).

The largest owners in our database are Redwood Living (9,806 units), Inland Real Estate Group (1,579), NexMetro Communities (1,510) and Lewis Group (1,254). These are not the largest institutional owners of SFRs, but the largest that own contiguous homes in communities with 50-plus units in our database.

American Homes 4 Rent owns more than 55,000 single-family units, but the bulk of its existing portfolio encompasses homes acquired as standalone properties. AH4R represents the development of the industry, as the company's strategy has evolved to include a robust build-to-rent program. The REIT's growth strategy has changed to recognize that building is often a more efficient way to grow than buying pre-existing homes one at a time.

Units Under Construction by Market Size

	50+ Community Units U/C
National	13,187
Secondary	9,266
Tertiary	3,921
Gateway	0

Source: Yardi Matrix

Units Under Construction by Region

Region	50+ Community Units U/C
Southwest	5,062
Southeast	4,549
Midwest	1,716
West	1,666
Northeast	194

Source: Yardi Matrix

Units Under Construction by Metro

Market	50+ Community Units U/C
Phoenix	2,592
Houston	1,035
Jacksonville	766
Charlotte	719
Dallas	551
Atlanta	544
Charleston	475
Sacramento	422
Austin	374
Denver	337
Des Moines	334
Salt Lake City	292
NC Florida	283
San Antonio	277
Las Vegas	266

Source: Yardi Matrix

Units Under Construction by Builder

Owner	50+ Community Units U/C
American Homes 4 Rent	1,603
NexMetro	1,336
Redwood Living	1,067
D.R. Horton	705
Camillo Properties	644
Newport Pacific Land	507
Petrovich	422
Capstone Collegiate	283
Sands Companies	253
The Wolff Company	230
Brown Group	217
Harvard Investments	212
RangeWater	197
GTIS Partners	197
Moderne	185
Transcendent	184
Wright Homes	180
Edgewater Ventures	177
Tradition Companies	176
El Dorado Holdings	174

Source: Yardi Matrix

Yardi's Central Data Repository

The lack of market information and transparency is an impediment to SFR growth. There is no central repository of information, and the vast majority of properties are detached, making data collection difficult. Yardi Matrix is stepping into that breach with a new database of single-family rental communities that currently encompasses more than 730 communities with 96,000 units and continues to expand. To meet the criteria for our database, properties:

- Must be in complexes with 50 or more units;
- Must not share walls with other structures; or
- If they have shared walls, neighbors must not be above or below, and they must have a direct-access garage.

Our SFR database, which is likely the largest database of single-family rentals in the U.S., still represents a small percentage of the overall institutional SFR market, which encompasses roughly 1.5 million units. The data does provide a standard definition of what is and what isn't SFR; performance of fundamentals such as rent and occupancy; valuations and sales data; a compilation of new supply (what's in the pipeline and where); and a list of investors in the segment.

What Build-to-Suit Offers

The institutional SFR market developed in the wake of the Global Financial Crisis in order to take advantage of the foreclosure crisis. When vulture investors swooped in to buy undervalued home loans from banks, many in the market were skeptical that the segment had staying power. Doubters expected institutional investors to cash out when home values recovered. "Is SFR a new niche sector or merely a trade?" was a common question.

Top Owners, 50+ Unit Communities

Owner	50+ Unit Community Units
Redwood Living	9,806
Inland Real Estate	1,579
NexMetro	1,510
Lewis Group	1,254
A.R. Building	620
City of Marina	548
Carmel Partners	540
Ashley Companies	523
Christopher Todd	508
Embassy Group	504
Blank Property	496
DRK & Company	492
Horizon Development	490
Sentry Asset	486
M3 Multifamily	470
Connor Group	470
Beachwold Resi	470
Dermot Company	456
Duff, Charles B.	439
Fairfield Properties	432

Source: Yardi Matrix

Although some institutions did cash out, others stayed in, though growth slowed until the pandemic breathed new life into the segment. Now lifestyle and demographic trends denote continued strong demand for SFRs. Meanwhile, the pandemic produced a sharp rise in savings that left institutions flush with cash and looking for real estate to buy. That has benefited niche segments as traditional asset classes have become extremely rich.

The logic of the investment doesn't make SFRs a slam-dunk. Managing vast pools of small assets remains a tricky endeavor that requires a specialized expertise. Institutional owners of SFRs need more than capital and willingness to succeed. Also required is efficient maintenance, technology adequate to manage and market properties, and the continued cooperation of economic trends. Not to mention that the SFR

market has yet to be tested over a long period of time.

Build-to-rent does offer a more stable environment in which to grow. Although much can still go wrong and space to build remains limited, there are advantages. It enables investors to control the product from start to finish, to create a "brand" as opposed to a random pool of assets, to concentrate a larger number of holdings in fewer locations, and possibly to improve liquidity by adding to the potential number of market participants. As such, build-to-rent is likely to flourish in the next economic cycle.

—Paul Fiorilla, Director of Research, and Casey Cobb, Senior Analyst

Appendix

Sales Volume by Metro

Metro	Total Dollar Volume ($MM) Since 2015
Phoenix	$762.9
West Palm Beach	$180.8
Austin	$141.9
Tucson	$115.3
Long Island	$111.8
Detroit	$109.7
Twin Cities	$105.5
Denver	$98.8
Tacoma	$98.3
Seattle	$82.0
Dallas	$74.8
Las Vegas	$64.3
Baltimore	$60.1
Tampa	$60.0
Kansas City	$57.0
Salt Lake City	$53.1
Houston	$51.4
Lexington	$43.6
San Antonio	$43.0
Columbus	$38.5

Source: Yardi Matrix

Stock, Rent Growth by Region

Region	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
Midwest	20,933	6.7%
West	15,247	8.0%
Southwest	14,856	10.0%
Southeast	10,696	6.3%
Northeast	5,147	4.7%

Source: Yardi Matrix

Stock, Rent Growth by Market Size

Market Size	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
National	66,879	7.8%
Seconday	35,715	8.1%
Tertiary	29,068	7.4%
Gateway	2,096	2.6%

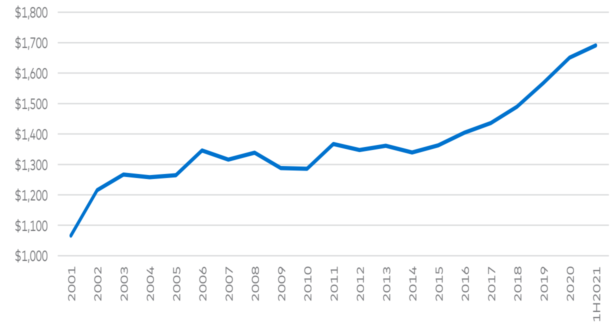
Source: Yardi Matrix

Stock, Rent Growth by Metro

Market	Stock-50+ Unit Communities	YoY Rent Growth - May 2021
Phoenix	6085	15.0%
Columbus	4309	6.7%
Inland Empire	2513	18.9%
Detroit	2499	6.7%
Kansas City	2232	5.2%
Dallas	1949	4.7%
Cleveland	1903	12.1%
Houston	1765	2.7%
Indianapolis	1654	5.9%
Central Valley	1633	11.1%
Twin Cities	1561	4.3%
Salt Lake City	1370	5.5%
Las Vegas	1292	12.3%
Tucson	1181	14.7%
Pittsburgh	1107	5.8%
Dayton	1096	1.0%
Toledo	1034	9.5%
Portland	980	2.6%
Rochester	968	7.5%
Lansing, MI	894	7.8%

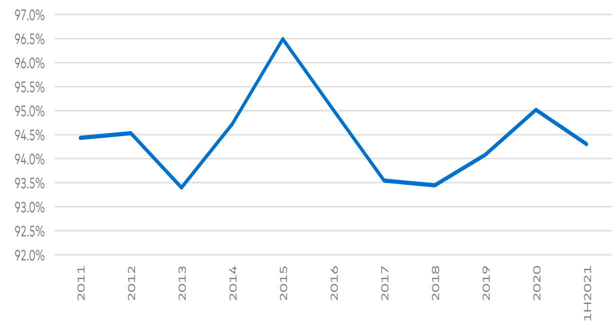
Source: Yardi Matrix

SFR National Rent Growth, 50+ Unit Communities



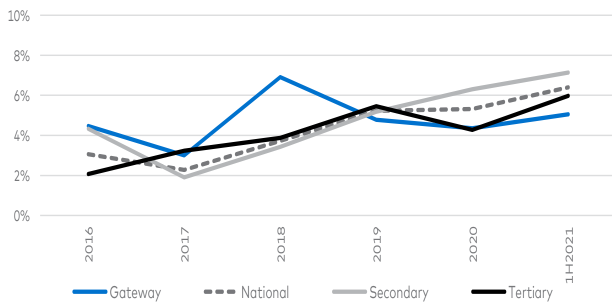
Source: Yardi Matrix

SFR National Occupancy, 50+ Unit Communities



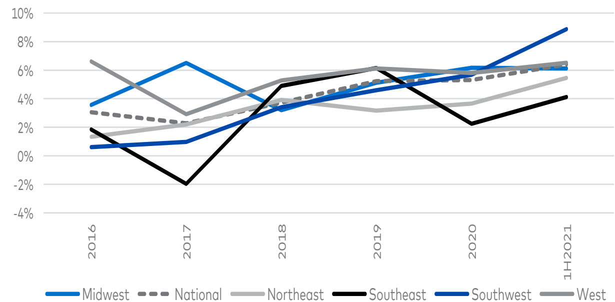
Source: Yardi Matrix

Avg. YoY Rent Growth, SFR 50+ Unit Communities by Market Size



Source: Yardi Matrix

Avg. YoY Rent Growth, SFR 50+ Unit Communities by Region



Source: Yardi Matrix

Completions by Market Size

Market Size	50+ Unit Community Unit Completions Since 2015
National	23,971
Secondary	14,070
Tertiary	9,838
Gateway	63

Source: Yardi Matrix

Completions by Region

Region	50+ Unit Community Unit Completions Since 2015
Midwest	8,788
Southwest	7,638
West	3,278
Southeast	3,224
Northeast	1,043

Source: Yardi Matrix

Completions by Metro

Market	50+ Unit Community Unit Completions Since 2015
Phoenix	5,026
Indianapolis	1,419
Detroit	1,371
Columbus	1,249
Lansing, MI	894
Dallas	806
Dayton	693
Salt Lake City	598
Cleveland	578
Inland Empire	524
Austin	497
Houston	484
Des Moines	448
Denver	418
Greenville	403
Fort Wayne	402
Charlotte	395
Kansas City	393
Cincinnati	367
San Antonio	332
Grand Rapids	323
Central Valley	310
Rochester	306
Tucson	301
Albany	294

Source: Yardi Matrix

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Low-Density Rental Housing in America

Urban Land Institute

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ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 80 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. In 2020 alone, more than 2,600 events were held in cities around the world.

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

More information is available at uli.org. Follow ULI on Twitter, Facebook, LinkedIn, and Instagram.

ABOUT THE ULI TERWILLIGER CENTER FOR HOUSING

The goal of the Urban Land Institute Terwilliger Center for Housing is to advance best practices in residential development and public policy and to support ULI members and local communities in creating and sustaining a full spectrum of housing opportunities, particularly for low- and moderate-income households.

Established in 2007 with a gift from longtime member and former ULI chairman J. Ronald Terwilliger, the center integrates ULI's wide-ranging housing activities into a program of work with three objectives: to catalyze the production of housing, provide thought leadership on the housing industry, and inspire a broader commitment to housing. Terwilliger Center activities include developing practical tools to help developers of affordable housing, engagement with members and housing industry leaders, research and publications, a housing awards program, and an annual housing conference.

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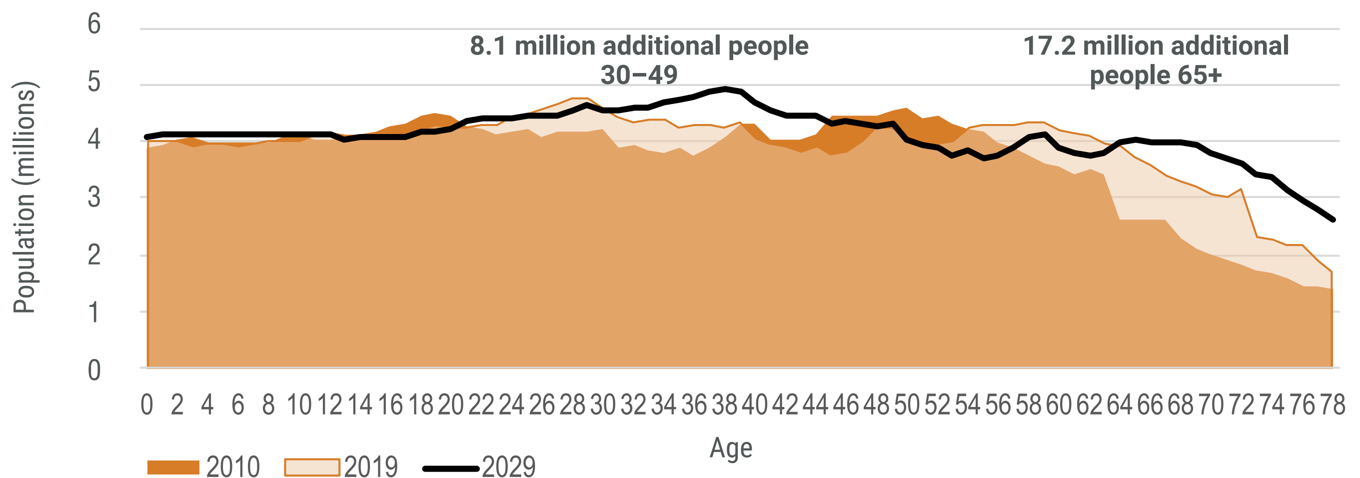
1. Introduction and Background

The United States is home to a broad spectrum of households with diverse housing needs; however, new rental deliveries in the past decade have primarily consisted of large-scale multifamily communities. Development patterns over the past decade have responded in part to the oversupply of single-family homes during the subprime lending crisis and the high concentration of millennials in their prefamily years, typically living in smaller urban apartments. Furthermore, regulatory challenges with missing-middle housing in many municipalities and the availability of equity and debt in the capital markets for conventional multifamily properties exacerbated rental housing's uniformity.

Demographic trends suggest the number of adults under the age of 30 is likely to level out, but significant population growth in the 30- to 49-year-old segment is expected over the next decade as the millennial cohort continues to mature and progress into prime family formation ages. Although many of these households will purchase homes, as demonstrated across the country over the past 12 months, many millennials will continue to rent because of lifestyle or affordability reasons. Given the constrained housing market and rising construction costs, affordability is one of the most pressing challenges facing many Americans. The median sales price for a home in the United States has increased steadily since the Great Recession, whereas incomes have grown at a slower rate. Today, the median home price is 5.6 times higher than the median income in the United States, a significant change from the average of approximately 4.0 from 1985 to 2000.[1]

HISTORICAL, CURRENT, AND PROJECTED POPULATION BY AGE

United States—2010, 2019, 2029 (projected)



Sources: U.S. Census Bureau; Esri.

[1] Moody's Analytics.

Though the long-term implications remain uncertain, the COVID-19 pandemic will significantly influence the future of the real estate industry. Despite noteworthy increases in new-home sales and broad single-family-home price appreciation of new and existing homes, the pandemic and economic shutdowns have created financial hardship for millions of American households. As the *ULI Terwilliger Center 2021 Home Attainability Index* has reflected, homeownership is even further away today for many because of income or employment loss during the pandemic, coupled with the rapid rise in national home prices. As a result, many households will likely remain in the rental housing market for extended periods.[2]

The demographic tailwinds, the impact of COVID-19, and growing affordability concerns, highlighted in ULI's *Emerging Trends in Real Estate® 2021* report, contribute to the rapid institutionalization of a new rental housing product type: purpose-built single-family rentals. While single-family rental homes are not a novel concept, as households have rented single-family homes for decades, purpose-built single-family rental homes are a relatively new concept.

Traditionally, single-family rentals have been primarily owned and operated by small-scale investors, accounting for more than 97 percent of existing inventory. However, following the subprime mortgage crisis and resulting Great Financial Crisis, several institutional investors (e.g., Invitation Homes/Blackstone Group, American Homes 4 Rent, Tricon American Homes) began aggregating homes in delinquency or foreclosure into rental portfolios. With national home prices bottoming in the first quarter of 2012 and excess housing supply in the market, many of these groups began to acquire significant numbers of individual properties. Despite these real estate investment trusts (REITs) and private companies purchasing tens of thousands of single-family homes over the past decade, it is estimated that institutional investors (owning more than 2,000 homes[3]) represent less than 3 percent of the total single-family rental homes in the United States.

[2] Michael A. Spotts, *ULI Terwilliger Center 2021 Home Attainabilty Index: Housing, Health, and the COVID-19 Crisis* (Urban Land Institute Terwilliger Center for Housing, March 2021), knowledge.uli.org/en/reports/research-reports/2021/terwilliger-center-home-attainability-index.

[3] Altus Group and U.S. Census Bureau.

Given the increase in home prices and historically low inventory levels, single-family rental aggregators face scalability challenges. Furthermore, with portfolios spanning numerous submarkets and markets, these aggregators face challenges providing consistent and high-quality property management. Recognizing these challenges, both existing operators and new single-family rental developers entering the market are opting to pursue ground-up development on more significant sites or bulk takedown agreements from homebuilders to provide better management, service, and amenities as well as increase scalability.

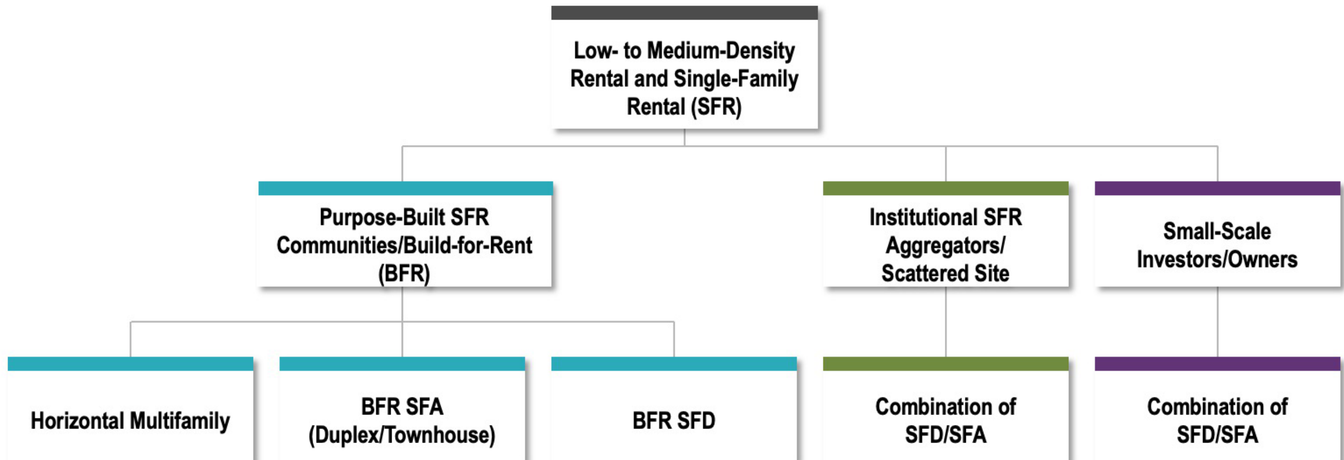
Single-family rentals (SFRs) benefit from the maturing millennials seeking a new type of rental product that matches their changing lifestyles, empty nesters looking to downsize, and the array of households in transitional life stages. Single-family rental housing will likely benefit from a robust segmentation strategy, appealing to both renters by choice and renters by necessity. Furthermore, SFRs provide the added interior space and yard for the growing number of households with pets and employees working from home, a key trend outlined in ULI's *Emerging Trends 2021*.

Given the strong tailwinds for purpose-built SFR housing, many new players have entered or are considering the purpose-built single-family asset type, including REITs, developers, investors, homebuilders, and crowdfunding platforms. Furthermore, given the organic growth of the product type over the past 10 years, a wide variety of products, communities, and strategies exist, which increases confusion across the industry and the media regarding nomenclature. RCLCO and ULI have set out to codify the SFR market's language, product types, and differentiating characteristics.

AHV COMMUNITIES

2. Defining a Rapidly Evolving Product Type

The competitive landscape for institutionalized SFR housing continues a rapid evolution as more companies enter the asset class, each with various strategies, product types, positioning, and locations. Market participants are diverse, including more than 60 known developers and operators nationwide, with more entrants each day. The SFR market includes individual investors; REITs; purpose-built SFR developers (AHV Communities, Christopher Todd, NexMetro); diversified developers (Brookfield, Provident Realty); public and private homebuilders (Taylor Morrison, Lennar, Toll Brothers, David Weekley Homes); multifamily developers (Greystar, Middleburg Communities); crowdfunding platforms (Fundrise); and online marketplaces (Zillow).



BFR communities provide cohesive offerings of single-family rental homes, with on-site management and maintenance *within the three subcategories below:*

Horizontal multifamily communities *share many similarities with multifamily properties in terms of unit sizes, unit types, and amenities but do not have stacked units*

BFR single-family attached *vary in scale, density, and orientation, but typically provide attached garages and larger unit sizes than horizontal multifamily communities*

BFR single-family detached *typically offer the largest homes of the three subcategories, often containing three or more bedrooms*

Institutional SFR aggregators/scattered site consist of uniformly branded properties that are professionally managed and use a master leasing and operating platform; given housing supply constraints, aggregators are moving to bulk home takedown structures in partnerships with homebuilders

Small-scale investors/owners represent the largest share of units in the single-family rental market; homes are owned and operated by small-scale investors who typically own fewer than three rental properties

Single-Family definition: *Single-family structures include fully detached, semi-detached (semi-attached, side-by-side), rowhouses, duplexes, quadruplexes, and townhouses. For attached units to be classified as single-family structures, each unit must be separated by a ground-to-roof wall and have a separate heating system and individual meters for public utilities, with no units located above or below.*

Despite the significant variation in offerings already in the market, most market participants agree on the asset class's overarching term: **single-family rentals**.[4] However, less consensus exists on the subclassifications. RCLCO and ULI analyzed hundreds of news articles and conducted interviews with various market experts to attempt to codify the language around the product type. Under the overarching SFR umbrella, land use is further differentiated based on the single-family rental structure and ownership model.

a. **Small-Scale Investors/Owners:** Representing more than 97 percent of the existing SFR housing market, this category is typified by individuals or groups of investors that purchase individual homes and rent them to tenants. Small-scale investors generally own few properties, with most owning fewer than three homes, and lack the scale required for operating and marketing efficiencies. These rentals are often referred to as the "shadow market," with listings typically available on online marketplaces, such as Zillow. While less prevalent, some developers and builders are starting to market for-sale homes directly to individual investors looking to purchase rental properties.

b. **Institutional SFR Aggregators/Scattered Site:** Representing the initial institutionalization of SFRs, these businesses aggregated thousands of homes across various markets and states following the Great Financial Crisis, leveraging scale and robust platforms to streamline the SFR process. Given housing constraints and elevated home prices in most rapidly growing U.S. markets, aggregators increasingly work with homebuilders to purchase blocks of new-construction homes in bulk to add to their platforms. This partnership with builders reduces market risks for homebuilders while allowing institutional aggregators the scale needed for capital deployment.

c. **Purpose-Built SFR Communities/Build-for-Rent:** The newest of the three, this category includes communities specifically designed and dedicated to SFR housing. Build-for-rent (BFR) communities incorporate consistent branding, housing quality, and vintage. Furthermore, these communities often offer on-site resources, such as leasing services, property management, and amenities. Although multifamily rental properties could qualify as BFR, the industry jargon has quickly associated the term specifically with purpose-built SFR communities.

[4] This report adopts for convenience the U.S. Census Bureau's definition, as follows. Single-family structures include fully detached, semi-detached (semi-attached, side-by-side), rowhouses, duplexes, quadruplexes, and townhouses. For attached units to be classified as single-family structures, each unit must be separated by a ground-to-roof wall and have a separate heating system, individual meters for public utilities, and no units located above or below.

The next layer of product and community differentiation relates to the specific product typologies. While small-scale investors and institutional SFR aggregators primarily own single-family detached (SFD) homes without shared walls, these investors may also own single-family attached (SFA) homes that share one or more walls (e.g., townhouses, duplexes, rowhouses). Product typologies vary widely in BFR communities, with housing products ranging from single-family detached homes on individually platted lots, various SFA typologies, or "horizontal multifamily" offerings. Horizontal multifamily is new jargon used in the industry to characterize a BFR community that offers unit sizes and bedroom counts comparable to multifamily properties but without stacked dwelling units. Horizontal multifamily properties typically consist of small SFD patio homes and SFA units (e.g., townhouses or duplexes) on land zoned for traditional multifamily development.

3. Build-for-Rent Concept and Community Profiles

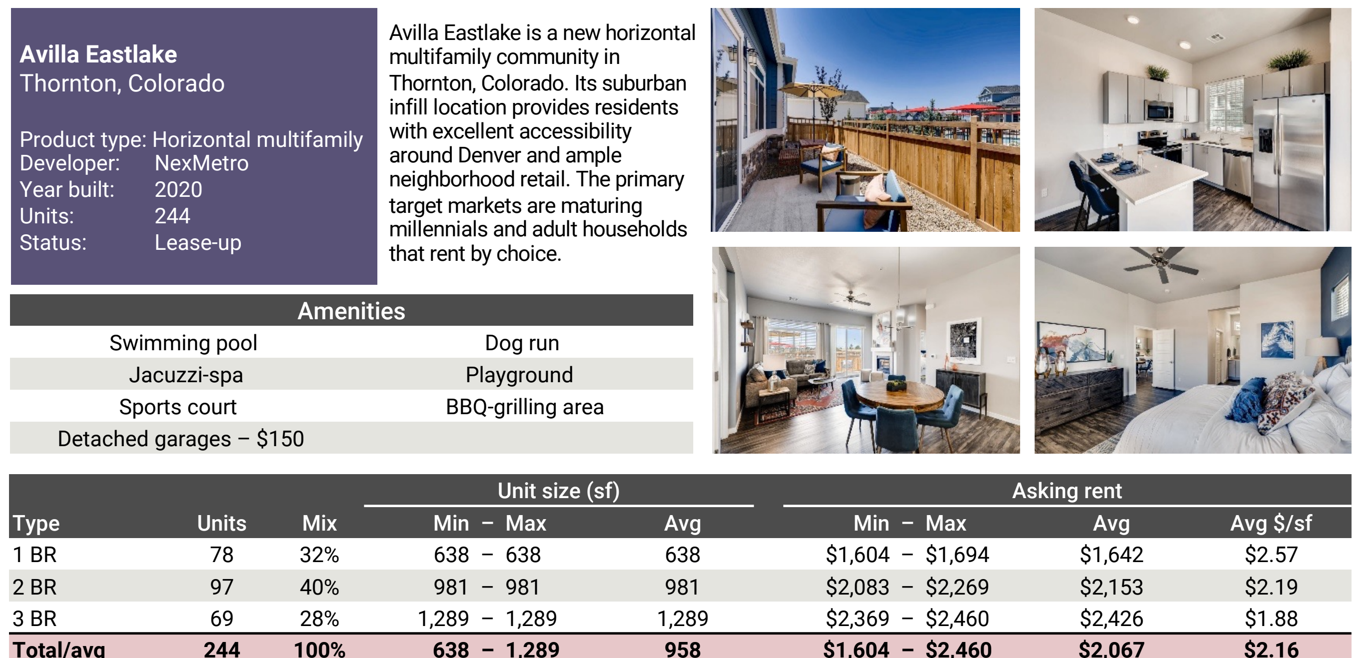
This section outlines the key characteristics of each unique SFR subclassification. Project profiles are included with some of the subclassfications discussed to illustrate key characteristics of successful communities.

HORIZONTAL MULTIFAMILY

BFR horizontal multifamily communities deliver many similarities to multifamily properties, including unit sizes, location, zoning, bedroom types, and amenities, but lack stacked units and tend to offer more three-bedroom units than traditional multifamily communities. Composed of dense one-story SFD units, as well as townhouses and duplexes for the smallest units, horizontal multifamily communities can achieve densities of nine to 14 dwelling units per acre, depending on the unit mix and site layout. These communities generally offer between 100 and 150 units, though projects are becoming increasingly more extensive to boost operating efficiency as the product has demonstrated market acceptance. Horizontal multifamily communities are typically developed on land zoned for commercial or multifamily uses, given the density and construction configuration of the product.

Amenities: Amenities at horizontal multifamily communities generally include private fenced patios or lawns, a resort-style pool, a small fitness center, a clubroom, and a business center. The private patios or lawns are often gravel or artificial turf to minimize maintenance needs. Units generally do not include attached garages, but ample street parking and rentable detached garages are available. In-unit washing machines and dryers typically come with each unit.

PROJECT PROFILES: SUCCESSFUL HORIZONTAL MULTIFAMILY COMMUNITIES



Avilla Eastlake
Thornton, Colorado

Product type: Horizontal multifamily
Developer: NexMetro
Year built: 2020
Units: 244
Status: Lease-up

Avilla Eastlake is a new horizontal multifamily community in Thornton, Colorado. Its suburban infill location provides residents with excellent accessibility around Denver and ample neighborhood retail. The primary target markets are maturing millennials and adult households that rent by choice.

Amenities	
Swimming pool	Dog run
Jacuzzi-spa	Playground
Sports court	BBQ-grilling area
Detached garages – $150	

			Unit size (sf)		Asking rent		
Type	Units	Mix	Min – Max	Avg	Min – Max	Avg	Avg $/sf
1 BR	78	32%	638 – 638	638	$1,604 – $1,694	$1,642	$2.57
2 BR	97	40%	981 – 981	981	$2,083 – $2,269	$2,153	$2.19
3 BR	69	28%	1,289 – 1,289	1,289	$2,369 – $2,460	$2,426	$1.88
Total/avg	**244**	**100%**	**638 – 1,289**	**958**	**$1,604 – $2,460**	**$2,067**	**$2.16**

Source: NexMetro Communities.

Christopher Todd Communities at Marley Park
Surprise, Arizona

Product type: Horizontal multifamily
Developer: Christopher Todd
Year built: 2020
Units: 175
Status: Stabilized

Located within the Marley Park MPC, Christopher Todd Communities at Marley Park offers horizontal multifamily homes and a full amenities package. The location is vehicle oriented, but nearby parks provide a traditional suburban lifestyle that is attractive to young families and prefamily couples.

Amenities	
Swimming pool	Lounge-clubhouse
Jacuzzi-spa	Fitness center
Sports court	BBQ-grilling area
Detached garages – $165	

			Unit size (sf)		Asking rent		
Type	Units	Mix	Min – Max	Avg	Min – Max	Avg	Avg $/sf
1 BR	82	47%	668 – 668	668	$1,315 – $1,315	$1,315	$1.97
2 BR	93	53%	1,022 – 1,022	1,022	$1,770 – $1,800	$1,785	$1.75
Total/avg	**175**	**100%**	**668 – 1,022**	**856**	**$1,315 – $1,800**	**$1,565**	**$1.83**

Sources: Christopher Todd Communities; Axiometrics.

Market Audience: The most populous renter segment at most horizontal multifamily communities is older millennials transitioning into a new lifestyle or preparing to start a family. These individuals are accustomed to renting and may be saving for a downpayment, but they seek enhanced privacy or space for pets. Another segment consists of mature adults or families accustomed to living in single-family homes but that are moving to a new city and renting before buying or are recently divorced. Horizontal multifamily also attracts a small share of empty nesters who appreciate the convenience of renting but prefer a single-family home to living in a multifamily property.

Location/Setting: The horizontal multifamily product was initially pioneered in Arizona and expanded to Texas, Colorado, Florida, New Mexico, and North Carolina. Using previous research from RCLCO and ULI's Terwilliger Center for Housing classifying suburban and urban neighborhoods, approximately 75 percent of horizontal multifamily communities are developed as infill projects in established suburban locations, with the balance primarily concentrated in rapidly growing greenfield suburbs. Given the land use density and zoning, horizontal multifamily projects typically compete with garden-style apartments for developable land.[5]

Competition and Positioning: Horizontal multifamily fills a product gap between traditional single-family homes and garden-style multifamily apartments. It attracts households that prefer a single-family home's privacy but do not need or cannot afford the large square footages of traditional single-family homes. The main competition to horizontal multifamily is garden-style apartments, with some competition from SFA and SFD homes on the shadow market. Because horizontal multifamily housing is generally preferred to the alternatives, it commands a substantial premium on a size-adjusted price per square foot basis relative to comparable garden-style multifamily and the local single-family shadow market. Despite premium positioning, smaller unit sizes at horizontal multifamily communities typically produce lower monthly rent payments than the monthly cost of ownership within the same submarket.

[5] Urban Land Institute, *Housing in the Evolving American Suburb* (Washington, DC: Urban Land Institute, 2016); ULI Terwilliger Center for Housing and RCLCO, *The New Geography of Urban Neighborhoods* (Washington, DC: ULI and RCLCO, 2018).

BUILD-FOR-RENT SINGLE-FAMILY ATTACHED

BFR single-family attached housing encompasses a broad spectrum of community configurations, unit types, and sizes, though each unit shares at least one vertical wall, and units are not stacked on top of each other. Because SFA communities are located in urban and suburban settings, they have noticeable variations in project sizes, typically ranging between 70 and 200 units. Furthermore, BFR SFA communities achieve densities of eight to 16 dwelling units per acre, with communities offering three-story townhouses able to achieve relatively high densities. Units at SFA communities generally provide two or more bedrooms and are larger on average than multifamily unit sizes but smaller than traditional single-family homes.

Amenities: The amenity offerings at BFR townhouse and duplex communities also differ by setting. BFR SFA communities in urban settings offer few amenities, though most communities provide a private fenced patio and an attached garage. In suburban locations, clubhouses with fitness centers are occasionally included, while additional outdoor amenities like a pool, grilling area, playground, or sports courts are more common in the newer communities to help with differentiation. Depending on the target audience and market, operators may choose to include washing machines and dryers or only provide hookups.

Market Audience: Like other aspects of the product category, the prominent market audience is determined by the community's setting. Suburban townhouses/duplexes often serve as transitional housing while renters are building or seeking to purchase a house nearby. Household types include families moving to a new area and prefamily millennial couples choosing to rent before buying to explore a neighborhood or construct a home. These types of households skew slightly older than the demographic makeup of renters at horizontal multifamily communities.

Recent divorcees are also common renters at single-family attached communities, given the need for larger homes with additional storage space. SFA communities in urban infill locations are attractive to young professional couples and roommates, particularly at transit-oriented sites. A smaller share of empty nesters rent at both suburban and urban SFA communities.

NEXMETRO COMMUNITIES

Location/Setting: BFR townhouse and duplex communities are located across the United States, usually in Sunbelt cities with lower living costs. While SFA rentals exist on the shadow market in high-cost cities, they are rarely purpose-built for rent and are typically owned by small-scale investors. BFR SFA communities are prevalent in the Mountain West, Midwest, Sunbelt, and Southern California. As previously discussed, BFR townhouse and duplex communities are situated in both urban and suburban locations. BFR SFA communities are slightly more prevalent in established suburban infill locations, though greenfield suburbs represent a sizable and increasing concentration. SFA communities are typically zoned for multifamily development, but sites may be individually platted in some circumstances.

Competition and Positioning: The primary competitive market for SFA communities is the shadow market, owned by small-scale investors or SFR aggregators. Additional competition in some markets may come from townhouse-style or three-bedroom units at multifamily communities. Given larger unit sizes and increased competition from the shadow market, BFR SFA communities are typically priced a slight size-adjusted premium over garden-style apartments, though premiums vary by quality and amenitization of the SFA community. Larger unit sizes and strong pricing typically yield monthly rent payments comparable to the monthly cost of ownership, assuming at least a 10 to 15 percent downpayment.

PROJECT PROFILE: SUCCESSFUL BUILD-FOR-RENT SFA COMMUNITY

BB Living at Val Vista
Gilbert, Arizona

Product type:	BFR SFA
Developer:	BB Living
Year built:	2021
Units:	217
Status:	Lease-up

BB Living at Val Vista is a new townhouse community located in Gilbert, Arizona. The community is located on the suburban edge in a rapidly growing submarket of Phoenix. The local school district scores above the state average. The site is vehicle oriented but has excellent access to a nearby highway.

Amenities	
Swimming pool	Dog run
Fitness center	Playground
BBQ-grilling area	Attached garages included

			Unit size (sf)		Asking rent		
Type	Units	Mix	Min – Max	Avg	Min – Max	Avg	Avg $/sf
3 BR	135	62%	1,604 – 1,679	1,650	$2,254 – $2,370	$2,305	$1.40
4 BR	82	38%	1,890 – 2,200	2,090	$2,444 – $2,634	$2,563	$1.23
Total/avg	**217**	**100%**	**1,604 – 2,200**	**1,816**	**$2,254 – $2,634**	**$2,402**	**$1.32**

Sources: Mark Taylor; Axiometrics.

BUILD-FOR-RENT SINGLE-FAMILY DETACHED

BFR SFD communities are the most similar to SFR units owned by institutional aggregators and small-scale investors but benefit from economies of scale with high concentrations of units in a single location and cohesive branding. Many of these communities are associated with or are sold from a larger master-planned community. BFR SFD communities typically contain between 85 and 175 homes, with an average density of three to seven dwelling units per acre. Given these lower densities, SFD communities are predominantly located in suburban locations and are typically platted as individual residential lots. Units at SFD communities generally provide three or more bedrooms and are significantly larger on average than multifamily unit sizes.

Amenities: In addition to larger unit sizes, another key feature of BFR SFD homes is the spacious backyards, with many communities offering large, fenced backyards. Furthermore, higher-end SFD communities typically include a community clubhouse with a fitness center, pool, business center, walking trails, dog park, and playground. When communities are located within a larger master-planned community, residents of the BFR community are often allowed access to the broader community amenity center. Most SFD homes in BFR communities come with attached two-car garages. All properties provide at least washing machine and dryer hookups, though some properties include in-unit appliances with base rent.

Market Audience: The primary audience for BFR SFD homes is family households, typically in a transitional period after moving to a new market or during home construction. Mature professionals and empty nesters represent secondary market audiences. They are attracted to the maintenance-free lifestyle while also enjoying the enhanced space, privacy, and conveniences of a single-family home.

Location/Setting: BFR SFD communities are most prevalent in low-cost Sunbelt markets, including Texas, Florida, Georgia, and Arizona. The majority of SFD communities are located in greenfield suburbs, though a sizable number are located on the edge of established suburban neighborhoods. Increasingly, master-planned community developers and homebuilders leverage existing infrastructure in planned communities and sell sections of their landholdings to BFR SFD developers and operators.

Competition and Positioning: The primary competitive market for BFR SFD communities is inventory owned by institutional aggregators or small-scale investors. Given their larger unit sizes, higher absolute rents, and increased competition from the shadow market, BFR SFD communities are typically priced at a slight size-adjusted premium over garden-style apartments, but at healthy premiums over small-scale investor inventory, given the elevated level of execution, on-site property management, yard maintenance, and amenities provided by the BFR communities. Larger unit sizes and strong pricing typically yield monthly rental payments comparable to the monthly cost of ownership, assuming a downpayment ranging between 10 and 15 percent.

PROJECT PROFILES: SUCCESSFUL BUILD-FOR-RENT SFD COMMUNITIES

Pradera
San Antonio, Texas

Product type:	BFR SFD
Developer:	AHV
Year built:	2019
Units:	250
Status:	Stabilized

Pradera is a BFR SFD community in San Antonio. Its location within an established suburban area provides residents with strong accessibility and good schools. The primary target markets are maturing millennials and families seeking more space in an amenitized and well-executed setting.

Amenities	
Amenity center	Resort-style pool
Lounge/café workspace	Dog park
Fitness center	Sports courts

			Size (sf)		Asking rent		
Type	Units	Mix	Min – Max	Avg	Min – Max	Avg	Avg $/sf
3 BR 2 BA	89	35.6%	1,435 – 1,435	1,435	$1,894 – $1,894	$1,894	$1.32
3 BR 2.5 BA	138	55.2%	1,555 – 1,555	1,555	$1,994 – $1,994	$1,994	$1.28
4 BR 2.5 BA	23	9.2%	1,942 – 1,942	1,942	$2,364 – $2,364	$2,364	$1.22
Total/avg	**250**	**100%**	**1,435 – 1,942**	**1,548**	**$1,894 – $2,364**	**$1,992**	**$1.29**

Source: AHV Communities.

Palomino Ranch
Houston, Texas

Product type:	BFR SFD
Developer:	Tricon
Year built:	2019
Units:	134
Occupancy:	Stabilized

Palomino Ranch is a new phase within the LGI Homes Painted Meadows community in Houston. Palomino Ranch is an example of a purpose-built single-family rental community leveraging the amenity program of a larger builder subdivision. Community features include expansive walking trails, parks with picnic tables, and a children's playground.

Amenities	
Smart thermostats	Marble countertops
Professionally maintained landscapes	Select homes feature swimming pools
Fenced-in lots	Concrete patios

			Unit size (sf)		Asking rent		
Type	Units	Mix	Min – Max	Avg	Min – Max	Avg	Avg $/sf
3 BR 2 BA	72	53.7%	1,414 – 1,658	1,482	$1,625 – $1,699	$1,646	$1.11
4 BR 2 BA	62	46.3%	1,844 – 2,134	1,891	$1,725 – $1,975	$1,765	$0.93
Total/avg	**134**	**100%**	**1,414 – 2,134**	**1,548**	**$1,625 – $1,975**	**$1,701**	**$1.10**

Source: Tricon Residential.

INTRODUCTION TO AGGREGATED SINGLE-FAMILY RENTALS AND SMALL-SCALE INVESTORS

Until recent years, the industry was long dominated by small-scale investors and individual owners that still represent a significant majority of the market. Following the Great Financial Crisis, institutional investors entered the SFR market by forming large aggregation groups that built up portfolios of thousands of homes in diverse markets.

Housing availability within a target market often determines the size, bedroom count, number of stories, quality of finishes, and other rental home characteristics. Amenities are limited because homes are located in existing single-family residential suburban neighborhoods with few if any amenities. Markets are selected based on various criteria, including population growth, rental propensity, housing needs, and renter affluence, with target neighborhoods having a high proportion of middle- and high-income households.

CHRISTOPHER TODD COMMUNITIES

INSTITUTIONAL SFR AGGREGATORS/ SCATTERED SITE

In the wake of the Great Financial Crisis, investment groups purchased packages of thousands of homes throughout the United States to build massive investment portfolios to convert into rental inventory. These groups use a disciplined property acquisition process of sourcing properties through broker channels and bulk portfolio sales. The industry is no longer in the startup phase and has now matured.

The continued scaling upward of the business is becoming more challenging as existing home prices continue to rise. Increases in investor returns now are driven by generating efficiencies in operations through marketing, revenue management, and home maintenance. Although groups are still acquiring single-family homes through traditional methods, the industry has also seen a shift into the development of purpose-built SFR communities to scale up the portfolio size efficiently. A new focus of operators is the formation of land acquisition and development teams to continue expanding while maintaining a geographically diversified portfolio. The aggregators intend to maximize revenue and absorption, so a location in strong school districts with access to lifestyle amenities is prioritized.

Amenities: Since aggregators typically purchase individual or clusters of homes, these portfolios do not usually benefit from shared community amenities. However, as aggregators shift to bulk takedown structures, a growing number of homes in these portfolios may have access to basic amenities, such as parks, playgrounds, and walking trails.

Market Audience: With most aggregators focused on larger single-family homes in areas with strong schools, families represent the primary market audience, though the market audience varies by location and market.

Location/Setting: Most scattered-site aggregators operate primarily in the Sunbelt, given the higher concentration of attainably priced homes, though many of these groups also have operations in the Pacific Northwest, Midwest, and Mountain West. Within these regions, houses are typically located in suburban neighborhoods.

Competition and Positioning: The primary competitive market for institutional aggregators is the shadow market, owned by small-scale investors or other SFR aggregators. American Homes 4 Rent, one of the largest publicly traded institutional SFR portfolios, lists its investment criteria, which include homes built after the year 2000, containing three or more bedrooms, valued between $200,000 and $400,000, and having renovation costs under 25 percent of the purchase price. On a size-adjusted basis, homes in these portfolios tend to be priced below purpose-built rental communities, given the greater variation in quality and fewer on-site amenities.

SMALL-SCALE INVESTORS

Small-scale individual investors, often referred to as “Mom & Pop” owners, have long dominated the SFR business. Many investors got their start by renting out their residence when they moved on to a new home for either lifestyle or financial reasons. For some small-scale investors, the revenue generated can be considered either a source of supplemental or “passive” income or a full-time profession. More than 97 percent of existing SFR stock is owned within these small-scale portfolios, with nearly half of those proprietors owning just a single unit. Eighty-seven percent of the portfolios are 10 or fewer units. These homes essentially comprise the “shadow market,” the listings of individual rental homes on online marketplaces such as Zillow, and sometimes compete with the purpose-built SFD homes for a similar market audience.

The main difference between small-scale investment stock and aggregated portfolios is the diversity of inventory quality, because aggregators are much more stringent in their investment criteria. Small-scale investors also lack the economies of scale needed for professional operations and management, resulting in a diverse spectrum of maintenance support and renter experience.

Amenities: Homes owned by small-scale investors rarely benefit from community amenities unless located within a master-planned community or large-scale builder subdivision.

Market Audience and Location: Given the fragmentation of the small-scale investor market, target audiences vary significantly from urban to suburban neighborhoods by market and product type. Individual investors are widespread in every state.

Competition and Positioning: Small-scale investors face growing competition from institutional investors, including aggregators and BFR communities. On a size-adjusted basis, homes in the shadow market tend to be priced below both purpose-built rental communities and single-family aggregators, given the lack of amenities and often novice property management.

TRICON RESIDENTIAL

4. Operating Metrics and Financials

As outlined in the previous sections, property characteristics, target demographics, and locations vary across the SFR product classifications, resulting in differing project economics. Development patterns in recent years help illustrate the possible supportable land values, operating expenses, and investor appetite for the evolving land use.

Supportable Land Values: Density is often the most significant variable driving achievable land values. As such, horizontal multifamily communities, which typically garner the highest density and price per square foot ratios, often are the most competitive for sites in suburban infill locations and able to pay land values comparable to garden-style multifamily communities. Given the variation in density and price positioning of BFR townhouses, these communities can often support land values in urban and greenfield locations, depending on the positioning of the community. BFR SFD communities often compete directly for land in suburban greenfield or fringe locations with single-family for-sale developers.

Operating Expenses: Compared to traditional multifamily products, SFRs have historically enjoyed lower turnover because of "stickier" occupancy, lower overall maintenance costs due to limited common areas, and more upside in asset values. As a tradeoff, SFR investments require higher long-term capital expenditure requirements and upfront rehab costs (for existing homes).

SFR portfolios are also more challenging to scale as opposed to a traditional multifamily portfolio. The scalability issue highlights one reason that aggregators have been transitioning in recent years to developing communities. The SFR industry's operating margins have become more efficient in recent years, from an average net operating income (NOI) margin around 50 percent in the mid-2000s to an estimated 65 to 70 percent presently. This is comparable to medical office, self-storage, and multifamily operation margins.

Capital requirements are higher for SFRs than traditional multifamily assets for both developers and operators. According to industry analysis, the estimated capital reserve requirements are 15 percent of NOI for SFRs compared with 10 percent for multifamily communities. The composition of expenses for a typical SFR investment is weighted more heavily toward property taxes, insurance, and homeowners association dues than traditional multifamily apartment communities.

Capitalization Rates and Transactions: The SFR space has seen an influx in investment and transaction activity over the past 18 months. Historically, SFRs have achieved cap rates 20 to 50 basis points higher than garden-style apartments, but competition from potential investors has driven yields downward in the past year, with single-family cap rates now in line with traditional garden-style multifamily communities. This trend suggests the continuing demand for the SFR product among institutional investors, which could drive cap rates below some garden-style apartments in the near term as more investors look to add SFR to their portfolios.

5. Implications and Conclusions

SFR housing has played an essential role throughout history in America, as large swaths of the U.S. population seek rental housing options other than high-density, multifamily properties. The trend toward purpose-built SFR housing has evolved over the past decade but has experienced exponential interest and growth over the past few years. As for many long-term trends, the outbreak of COVID-19 exacerbated and emphasized the need for a broader diversity of rental housing. Many of the key trends outlined in ULI's *Emerging Trends 2021* report, including the rise of working from home, a geographic shift to more affordable Sunbelt markets, growing demand in suburban neighborhoods, and the substantial and growing affordability crises, provide support for the investment thesis behind much of the growth in low-density rental housing.

The expansion and capitalization of low-density rental housing can deliver more housing at price points below the cost of purchasing homes within a respective neighborhood. However, there are some concerns that the institutionalization of the SFR housing market could contribute to adverse side effects if not appropriately mitigated by developers and local municipalities. Potential negative implications—and policy/development responses—follow.

Impact on Affordability: Many SFR communities are also denser than traditional SFD housing in the for-sale market, thus creating more housing options on less land. Although low-density rental housing can serve as an essential component in the broader spectrum of housing opportunities, a possibility exists that, in certain contexts, this model could exacerbate affordability concerns by competing for developable land with developers of garden-style apartments and entry-level housing by elevating land prices and, in turn, housing prices.

Potential policies and practices to mitigate this challenge follow:

- Some SFR developers are evaluating the opportunities to incorporate modular construction systems that could ultimately lower the cost of building low-density homes and providing more affordable housing options to households priced out of the for-sale housing market.
- Land use and zoning policies that increase the proportion of land area for which these residential typologies are politically and economically viable, thereby reducing some competitive pressure for sites.
- Facilitating the production of income-restricted units, the use of rental assistance (such as housing choice vouchers), or both, for a portion of units in a development to broaden the market of eligible tenants. This can be achieved from a regulatory perspective (inclusionary housing policies, anti-source of income discrimination laws) or proactive developer practices that reserve (or affirmatively market) units for rental assistance recipients.

Impact on Equity: Related to the affordability considerations, the higher price-point of some low-density rental communities could contribute to income segregation. Furthermore, in some markets, investor purchasers can create barriers to homeownership (with impacts on equity and economic mobility) if they can consistently outcompete individual first-time homebuyers for resale of existing homes.

Potential policies and practices to mitigate this challenge include

- Land use and zoning policies that allow housing typology diversity within a specific development/community, increasing the range of potential price-points and allowing for more mixed-income and/or mixed-tenure opportunities;
- Inclusionary/rental assistance recommendation outlined under the impact on affordability; and
- Creation of local "first look" programs that incentivize sellers who create a window of opportunity for first-time homebuyers to purchase existing homes.

NEXMETRO COMMUNITIES

Impact on Environmental and Infrastructure Sustainability: With the competition for land within suburban locations, the expansion of low-density rental housing could push entry-level housing further from employment centers, with attendant impacts on the environment and infrastructure needs.

Potential policies and practices to mitigate this challenge include the following:

- Land use and zoning policies that allow housing supply growth and diversity in established communities could relieve pressure on greenfield development.
- Land use and zoning policies should prioritize development locations proximate to current commercial/office/residential nodes or other community facilities, thus allowing a horizontal mixing of uses and incrementally mitigating transportation demand.
- Mixed-use development that includes neighborhood-serving retail should be allowed by right.
- New transportation infrastructure could be encouraged to integrate into the surrounding road/transit infrastructure network (i.e., grid integration/completion, minimizing dead ends/culs-de-sac, etc.).

While it is unlikely that low-density rental housing will solve the country's substantial affordability crises, providing more housing alternatives to meet the needs of a diverse array of American households is a positive step forward.

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RESIDENTIAL REAL ESTATE

AN ODD DECISION FOR A SUBDIVISION

Homebuilders are feverishly working on housing they won't sell

Rick Neff of Avanta Residential, part of Hunt Companies, surveys land set aside in The Colony master-planned community near Bastrop for single-family rental homes — they'll look like a traditional neighborhood but act more like a luxury apartment complex.

ARNOLD WELLS/ABJ

By Parimal M. Rohit and Mitchell Parton
Austin Business Journal

May 20, 2021
Updated May 20, 2021, 6:29pm CDT

Build it and they will come? More like they are coming, and it can't be built fast enough.

Homebuilders are hard-pressed to keep up with demand for new houses, resulting in skyrocketing prices across the state. The median home price in metro Austin, for example, hit $425,000 in March, an all-time high, according to the Austin Board of Realtors. Inventory was a record low 0.4 months.

Rising prices, as well as changing sentiments about remote work and home life spurred by the Covid-19 pandemic, have brought extra attention to a trend that has been gaining steam for years: detached single-family residences built specifically for the rental market.

Although these properties are designed similarly to typical for-sale subdivisions, they often have the same types of features as a class A apartment complex — leasing staff, maintenance staff and amenities such as swimming pools, dog parks and fitness centers. Several such properties have already been built in the Austin area, and a few more are rising. Many are sure to follow.

The single-family rental product "serves a need for people who want to live in the suburbs and want some more space, but struggle to put a down payment together," said Vaike O'Grady, Austin regional director for Zonda, a housing market research company.

Not only has the build-to-rent concept attracted the attention of several major traditional builders in Texas, but companies dedicated almost exclusively to these developments are bullish on the Lone Star State. Lenders and investors are also more receptive to the product type after seeing headlines all over the U.S. spotlighting its newfound popularity.

The consumer demand and long-term investment potential have proven build-to-rent to be a viable alternative to luxury apartments for developers.

"It's really the biggest paradigm shift in real estate this generation has seen, and it's very complimentary to our business. Our early projects have been a home run," said Darin Rowe, president of the build-to-rent division of Arizona-based builder Taylor Morrison. "Consumers can't get enough and are welcoming the diversity in housing offerings that our concept brings, which is a blend of single-family homes in a multifamily setting with central amenities."

CONSTRUCTION AND DEMOLITION RECYCLING REQUIRED
Learn more

While current market conditions are ripe for the proliferation of single-family rentals as an alternative to the for-sale market, the current wave got its start in the wake of the Great Recession.

What is driving the trend?

Phoenix-based NexMetro, founded in 2012, was one of the earliest players in the build-to-rent space. Coming out of the housing crash, the founders expected the offering to appeal to customers with bad credit and who would not be able to afford a home.

Instead, they found that many of their customers had excellent credit and the ability to afford a home, but they had various other reasons not to buy. During certain life transitions, such as after a divorce or when getting a new job, people may not want to make the large commitment of buying a home.

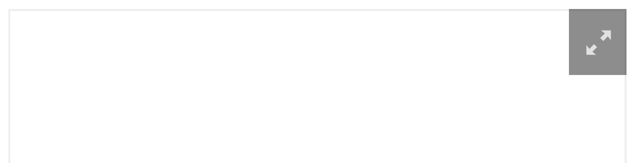
That reasoning remains true today, said Jacque Petroulakis, executive vice president of marketing and investor relations for NexMetro, which builds communities under the Avilla Homes name.

“They are renters by choice, meaning that these are consumers who want to live in a home, they love the detached nature of a home, they want to have the backyard, they don't want to walk down a shared hallway or get in an elevator,” Petroulakis said. “They love that community experience, but they want to rent.”

While build-to-rent developments definitely attract young people who are unable or unwilling to buy, the maintenance-free aspect of these communities is also a big plus for empty nesters and retirees who may have a fixed monthly budget.

Founded in 2013, AHV also found its roots in the “best of both worlds” idea during the product’s infancy.

“That thesis was always designed around the concept of giving the best of the apartment world and the best of the single-family rental world to an individual tenant,” said Mark Wolf, founder and CEO of AHV Communities, which moved its headquarters to San Antonio last year.



Mark Wolf is CEO of AHV Communities, developer of Pradera.

GABE HERNANDEZ | SABJ

While the momentum was there before 2020, build-to-rent developers have seen tremendous growth since the onset of the Covid-19 pandemic. With the growth of remote work, renters may also want more space, such as for home offices. Also, suburban markets — where single-family rental developments are most common due to land pricing and economics — have become more desirable as many remote workers find themselves driving to city centers less often.

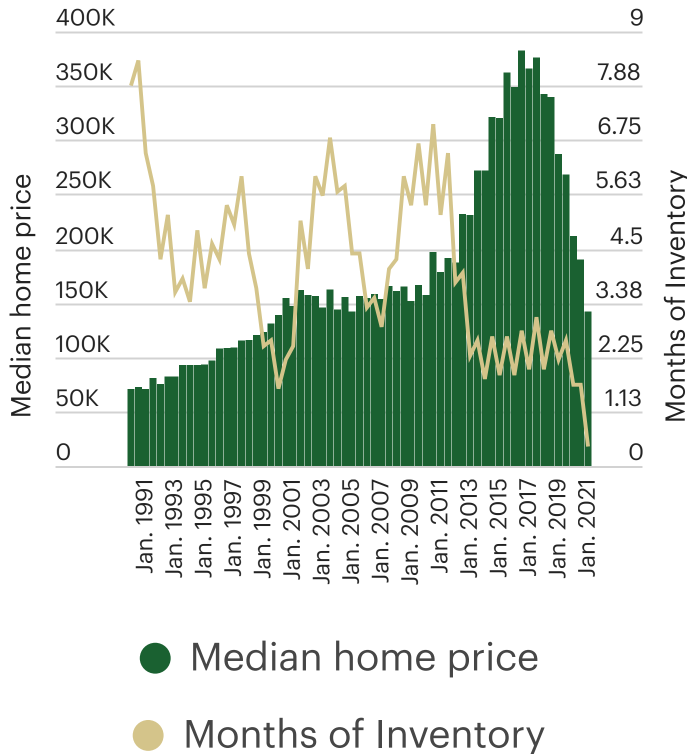
“People want more space. People don't want to be cooped up in apartments. They want to be able to work from home,” Wolf said. “All those different nuances really catapulted and accelerated the research out there and the interest in this kind of burgeoning space.”

In markets such as Austin, housing demand continues to far outpace supply. Single-family rentals have become more appealing for a large segment of the population for whom a down payment seems increasingly out of reach. Matthew Turnage with Realty Austin said someone seeking to buy a home in Austin typically needs at least $40,000 to $50,000 in the bank when an offer is made — and many still will have multiple offers turned down.

"There is an aspect of the demand that is being fueled by buyers unable to secure single-family homes to purchase,” said Matt Menard, a Realtor with Austin Real Estate Experts. “We have shrinking inventory [on sales and leasing]. We’re not going to close the gap anytime soon.”

INVERSE RELATIONSHIP

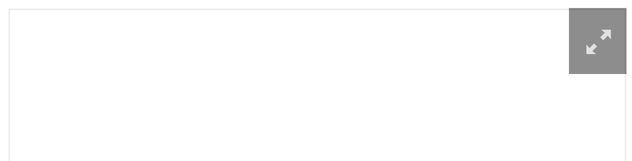
This graphic shows 30 years of Austin-area housing statistics, illustrating the correlation between inventory and prices.



SOURCE: Texas A&M Real Estate Center

Hunt Companies, a diversified real estate business based in El Paso, has been building detached rental homes for more than 30 years. It formed a new division dedicated solely to build-to-rent housing, Avanta Residential, in 2020 and picked the Austin area for its first project.

Avanta is building 216 rental homes near Sam Houston Drive and FM 969 outside Bastrop, within a wider Hunt master-planned community called The Colony. The rental community will have a variety of home sizes, from one-bedroom cottages to four-bedroom detached homes with garages. It will also have amenities such as a clubhouse, pool, walking trails with fitness stations, open play areas and playgrounds. Homes will be available for rent in 2022.



The Colony under construction near Sam Houston Drive and FM 969 outside Bastrop.

ARNOLD WELLS/ABJ

“This is just the next iteration of Hunt residential development,” Avanta President Jim Dobbie said.

Combining single-family rentals with traditional for-sale homes could become popular in the subdivisions popping up outside Austin. Zonda's O'Grady said the rental communities "actually could become a feeder for master planned communities down the line."

AHV in 2017 began constructing Legacy in Pflugerville and Rivers Edge in Georgetown.

Deals on the rise

That hunger for rentals has led to an unprecedented development boom across the Lone Star State.

Wolf said that when AHV was getting its start, the mood surrounding build-to-rent was vastly different. At that time, AHV was reaching out to major builders to construct its homes — as opposed to building them on its own as it does now — but with little success.

“Nobody wanted to build for us for a reasonable price,” Wolf said. “Everyone looked at us like we were crazy, and you know, maybe we were back then. But here we are now, eight years later, and this is the hottest sector in real estate today, bar none.”

Especially over the past year, national builders have taken notice of the rise in popularity of build-to-rent and realized how the segment could diversify their portfolios and provide a long-term investment opportunity. Several of Texas’ largest homebuilders are making big deals in the space, assisted by the larger awareness of the product in the financial community.

“Capital finally understands, and now capital’s rushing into the business,” Wolf said. “The money now understands it, the money is now accepting of it, and so, now everybody wants to be in it.”

Arlington's D.R. Horton Inc., the largest U.S. homebuilder by volume, has significantly expanded its single-family rental platform, from 13 communities at the end of 2020 to 27 communities as of March 31 representing $182.6 million in assets, said Michael Murray, executive vice president and chief operating officer, in an April earnings call.

Near the end of last year, D.R. Horton (NYSE: DHI) completed its first sale of a single-family rental community — the 124-unit Amber Pines at Fosters Ridge in Conroe, north of Houston. The community was purchased for $31.8 million in cash by Fundrise, an online investment platform based in Washington, D.C., which said it expects to hold on to the community over the next several years, possibly a decade. The property was 98% leased as of December.

"As with our other equity investments into stabilized properties, our goal is to earn consistent cash flow from rental income over the course of the investment, with the potential for long-term upside by selling the property for more than we invested into it," according to a statement from Fundrise.

Wan Bridge, based in Houston, got its start buying existing homes, renovating them and renting them out. In 2015, the company began developing and managing its own communities, and it has now completed several in the Dallas-Fort Worth and Houston areas. It has some deals in the works in San Antonio and Austin, said CEO Ting Qiao.

ICB Construction LLC, a new subsidiary of Houston-based homebuilding giant David Weekley Homes, announced in January a partnership with Arlington-based ECM Development to develop and build such neighborhoods in Dallas-Fort Worth.

Dallas Tanner, CEO of Invitation Homes (NYSE: INVH), the country's largest single-family rental housing owner, told the Dallas Business Journal last fall that the company wanted to see its total footprint nearly double over the next three to five years.

And those are just a few examples. Not naming names, Wolf said not everyone in the space has the experience of AHV, which has already completed and stabilized half a dozen single-family rental properties.

"Our job, in some respects, is harder because we have more competition, but we have competition with people who don't understand the business. We have people who are just reading the headlines and wanting to participate in the story," Wolf said. "Few people have actually built these communities from start to finish. We have stabilized and sold them."

Getting the idea across

Developers must factor in zoning and planning into the development of single-family rental communities, which are typically zoned as multifamily — despite their appearance.

Taylor Morrison — which recently announced single-family rental communities in seven markets, including Austin — is doing its part to fill in any gaps and educate Austin city officials during the entitlement process.

“We can work with city staff to chart a course through either single-family or multifamily zoning with variances as needed or a more customized planned development route,” Rowe said. “Also, forward-thinking cities are creating new ordinances to specifically address this new segment of housing.”

Dobbie, Avanta Residential president, said city zoning codes often don’t account for build-to-rent projects

“We’re repeatedly being required to educate the municipalities as to what we’re trying to accomplish,” he said.

Rick Neff, left, and Joey Najera of Avanta Residential, the single-family rental division of Hunt Cos. launched in 2020.

ARNOLD WELLS/ABJ

Wolf said single-family rentals and apartments "complement each other." In concert, they could provide much-needed relief for housing supply.

But there is a natural question to ask: what is the endgame for developers of single-family rentals? In a market as hot as Austin, builders are struggling to produce even enough single-family residences for sale. Would a builder of a single-family rental community ever put those residences on the market for sale?

“We will cross that bridge when each asset is leased up,” Rowe said. “The market is very

strong currently for those who wish to sell these single-plat assets so that's great news, but there may also be a case for continuing to own these assets."

D.R. Horton's Murray said the company is still learning the business and will evaluate ways to scale it out and capitalize on it.

"We think there is some portion of the population that will be a great customer for this product that desires a single-family lifestyle, but who may not for whatever reason be purchasing a home, and so, we want to build up to be in a position to help supply this," he said.

THE LIST

The List: Austin-area custom homebuilders

Ranked by Dollar amount of custom homes closed in 2019

Rank	Company Name	Dollar Amount Of Custom Homes Closed In 2019
1	Giddens Homes	$41.60 million
2	Grand Endeavor Homes	$38.08 million
3	Heyl Homes Inc.	$31.00 million

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