Special Report

Single-Family Build-to-Rent Properties

An Emerging Option for Renters & Investors

Build-to-Rent Overview

The single-family build-to-rent (SF BTR) market is a trend in rental housing that has gained significant momentum in recent years. Developers are responding to the evolving demands of renters by delivering a hybrid rental option that combines the privacy of a single-family home, the flexibility of rental housing, the convenience of professional property management, and all the modern amenities associated with newer homes.

There are several factors that are fueling the renter demand for single-family build-to-rent units. The first is the changing demographics of current renters. For the past several years, renters have been growing older and more affluent. As a result of these shifts, the type of rental housing being favored by tenants is changing, and developers are diversifying their offerings to attract this current wave of renters to their properties.

A second factor is rising home prices, which have led to declining affordability. In 2020, the national median home price rose by nearly 15 percent, topping $315,000. While this trend benefits existing homeowners, higher prices continue to create challenges in transitioning from renting to owning.

The COVID-19 outbreak has also impacted housing trends. Dense urban living and the live-work-play dynamic that has dominated development trends in recent years lost some of its appeal in a new age of work-from-home and social distancing.

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Changes in Single-Family Rental Dynamics

While single-family homes have been employed as rentals for generations, generally these homes have been owned by local mom-and-pop operators. The wave of foreclosures that came about as a result of the Great Recession more than a decade ago introduced a new group of owners to the landscape, with a handful of large institutional buyers acquiring thousands of single-family units to create portfolios of rental housing.

The next phase in the evolution of single-family rentals began to take shape in 2015, with developers bringing communities of newly built, single-family homes directly to the market as rentals. These single-family build-to-rent communities are a new option for renters, competing with the previous choices that included an older mix of homes owned by individuals and/or institutions.

A strengthening for-sale housing market has seen a decline in the number of stand-alone single-family rental housing units. In three of the last four years, the number of single-family rentals has declined, including a drop of more than 290,000 units in 2018.

This is creating opportunities for newer, professionally managed communities of single-family homes built specifically as rental residences.

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The two largest institutional firms in the single-family rental space were established around a decade ago. Invitation Homes is the largest participant in the market, with approximately 82,500 rental homes in its portfolio, followed by American Homes 4 Rent, with 52,500 homes. Several other companies are moving into the space.

The Single-Family Build-to-Rent Breakdown

The Changing Face of Today's Renters

Several factors are changing the way Americans live, the types of housing they choose, and whether they rent or own. The past decade has shown a clear shift away from home ownership and into renting, particularly among older and higher-income households. Developers are bringing single-family build-to-rent communities to the market to meet this new demand and supply the type of housing today's renters find most desirable.

+3.2 Million

Net Change in High-Income Renter Households (2010-2018)*

**$75,000 & greater*

Source: Joint Center for Housing Studies of Harvard University

+350,000*

Net Change in Renter Households

**(2019 Annual rate through first three quarters)*

Source: Joint Center for Housing Studies of Harvard University

Home Rentership

Change by Age 1994-2019

+4.5% Age 35-44
+5.3% Age 45-54
+4.2% Age 55-64

Source: Joint Center for Housing Studies of Harvard University

+4.1 Million

Increase in Total Renter Households (2010-2018)

Source: Joint Center for Housing Studies of Harvard University

68%

Renters (Age 35-64)

Who have been in their home for at least 2 years

Source: Joint Center for Housing Studies of Harvard University

+45.1%

Household Incomes $75,000 & Greater

Fastest-growing renter group (2010-2018)

Source: Joint Center for Housing Studies of Harvard University

Advantages of Single-Family Build-to-Rent Communities

In an era where social distancing has become the norm, having more privacy and less communal space has become increasingly attractive for renters.

01.
Privacy

One factor that brings renters to single-family homes is privacy. Single-family homes offer the advantage of not having neighbors one floor above or below you, and no shared walls. Some SF BTR communities offer a private patio to relax and/or a fenced-in backyard for the kids—or the dog—to run around in.

An additional advantage of single-family units has emerged in the past year, and that is health. In an era where social distancing has become the norm, having more privacy and less communal space has become increasingly attractive for renters.

02.
Affordability

While newer single-family rentals command some of the highest rents in their markets or submarkets, the comparison to the costs of home ownership can be advantageous. Many single-family renters have sufficient incomes to afford mortgage payments, but securing a down payment in an increasingly competitive housing market continues to prove challenging.

03.
Flexibility

Today's generation of renters has memories of the housing-related stresses that impacted their parents during the Great Recession a little more than a decade ago. Prices dropped approximately 33 percent at the national level, with prices in states such as Florida, Arizona and Nevada contracting even more. Nearly 4 million homes were lost to foreclosure from 2007-2010, and home ownership rates have only recently begun to creep higher.

While renters of single-family build-to-rent homes do not get to participate in home price appreciation, they do not carry the risks of falling home prices, and are able to move at the end of a lease term. Renters also do not have to go through the expense and work associated with selling a home if they decide to move for work, school, or family.

04.

Professional Management & Maintenance

One clear advantage of single-family build-to-rent units over mom-and-pop rentals is professional management. Not only are the common areas maintained by the management company instead of the renter, but any maintenance issues in the rental can be corrected quickly with on-site maintenance.

One of the common complaints about individual-owned rentals is timely repairs and maintenance. In addition, the new generation of single-family build-to-rent properties are all either brand-new construction, or only a few years old, and therefore less likely to have deferred maintenance or items in need of repair.

05.

Amenities/Technology

As renters have become older and more affluent, they have raised their expectations for the communities where they live. New SF BTR communities have a wide range of attractive amenities including smart-home technologies such as keyless entry, doorbell cameras, smart thermostats and security systems. Several projects are gated, and most communities have pools, which are far less common in traditional single-family rentals.

As renters have become older and more affluent, they have raised their expectations for the communities where they live.

Development Trends: U.S.

Development of single-family build-to-rent homes is on an upward trajectory, as builders step up activity levels to meet the current and future demand in this property type. In 2020, housing starts for single-family build-to-rent units reached nearly 50,000 units.

Starts for SF BTR units increased by approximately 15 percent from 2017 to 2020 as projects have been successfully leased-up in the markets where communities first came online. Single-family build-to-rent projects account for approximately 5 percent of single-family housing starts in 2020.

Yearly Build-to-Rent Completions

Deliveries of SF BTR communities have risen to 50,000 units per year.

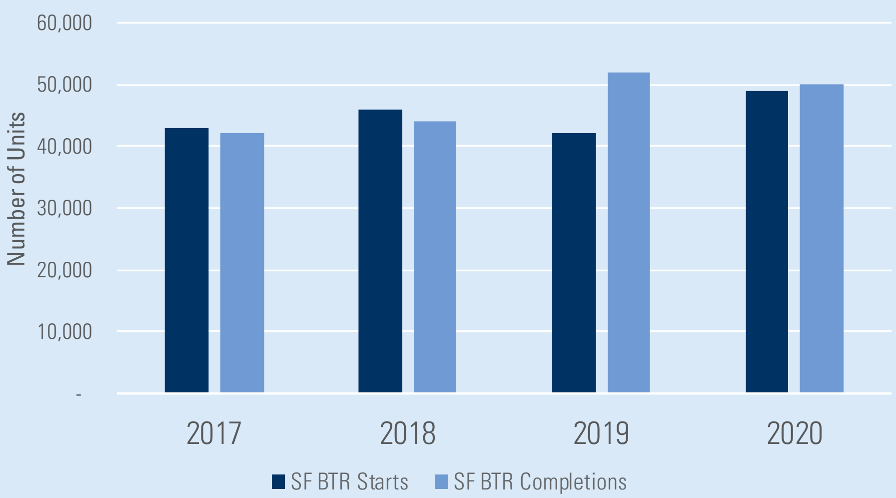
42,000
units delivered, 2017

44,000
units delivered, 2018

52,000
units delivered, 2019

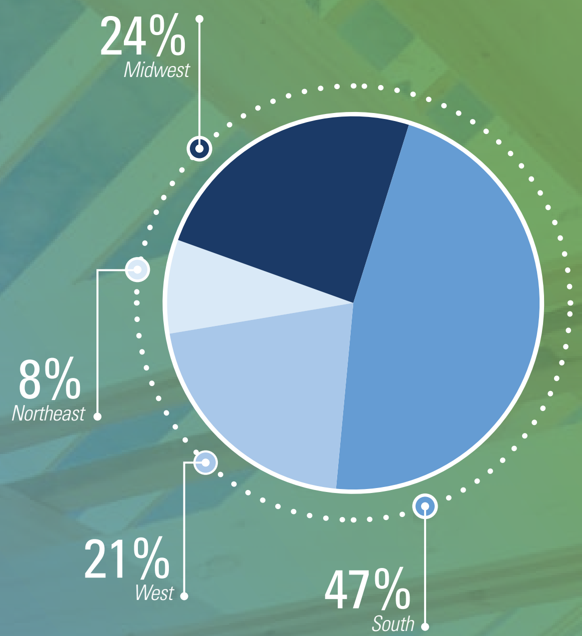
50,000
units delivered, 2020

Single-Family Build-to-Rent Construction



Sources: NorthMarq, U.S. Census Bureau

Single-Family Build-to-Rent
Construction Starts by Region - 2020



Regional Development Trends

In 2020, the South region accounted for nearly 50 percent of the total construction starts for SF BTR units. Activity in the South region was concentrated in Florida, Texas, Georgia, and North Carolina. Starts in the South region totaled 23,000 units in 2020, and have averaged approximately 20,000 units per year since 2017.

The South region is a logical hot spot for single-family build-to-rent development, with demand being fueled by the elevated population growth being recorded in the states with the greatest development. Many of the key markets recording surges in development also have land for new construction at affordable acquisition pricing.

Markets in the Midwest account for approximately one quarter of new construction in the SF BTR space. While the Midwest as a whole is not recording significant population growth, there are particular markets where growth is sufficient to prompt new SF BTR development.

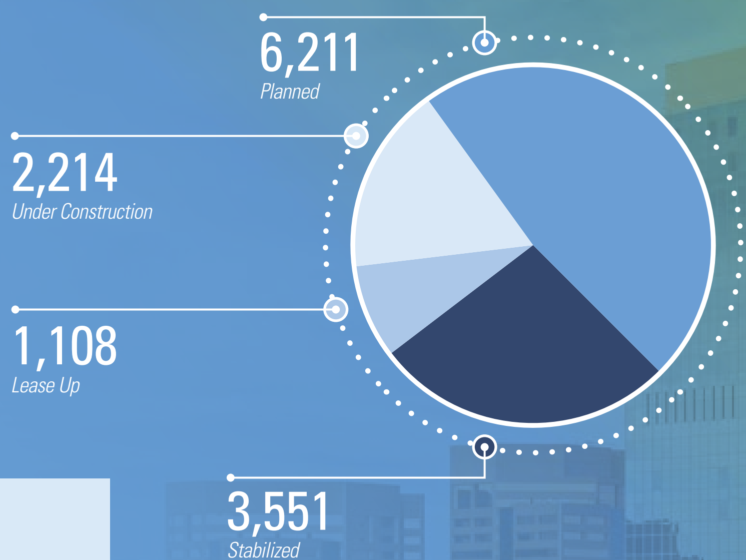
Key Midwest markets for new development of single-family build-to-rent units include Indianapolis, Fort Wayne, Columbus, and Grand Rapids. In 2020, starts in the Midwest region totaled 12,000 units, after averaging fewer than 10,000 units per year since 2017.

The West region accounted for approximately 20 percent of the total construction starts for single-family build-to-rent units in 2020, as developers started approximately 10,000 units. After being a first mover in the SF BTR space, the pace of starts in the West region has been fairly steady in recent years.

Starts in the West region are concentrated in a few high-growth regions where there is a consistent pace of demand for housing and land for new development. In the coastal states of the West region, however, land costs are too high for the current single-family build-to-rent model to provide an adequate return on investment. Rental construction in these regions is likely to remain high-density apartment units.

History of Single-Family Build-to-Rent

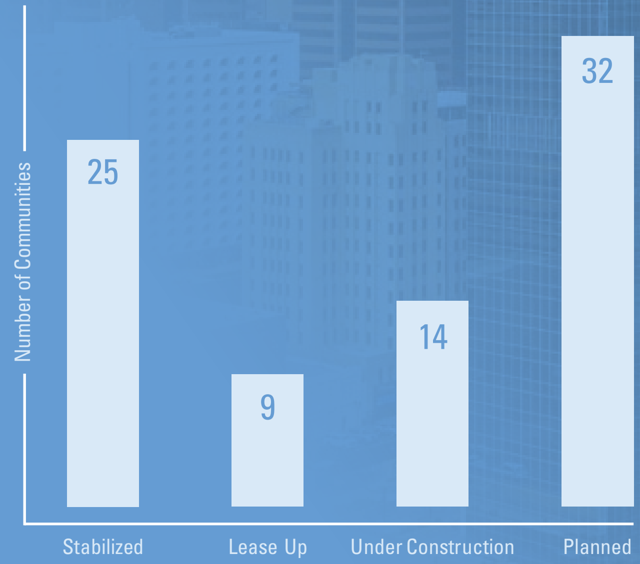
Phoenix Single-Family Build-to-Rent: *Current Inventory & Pipeline (Units)*



The Phoenix area was the first major market where communities of single-family build-to-rent homes began to come online rapidly. The initial surge in development began in 2015, and many of the largest operators in the product type have delivered projects in the Phoenix area in the subsequent years.

Currently, more than 3,500 units have been delivered and are now stabilized in the Phoenix metro area, with an additional 1,100 units in lease-up. The construction of these projects shows no signs of letting up, with projects totaling more than 2,200 units currently under construction in and around Phoenix, with an additional 6,200 units planned.

Phoenix Single-Family Build-to-Rent Communities: *Current Inventory & Pipeline*



The Austin area features a young, growing, high-income workforce, rising home prices, and suburban submarkets where land can be acquired at prices, where SF BTR can yield adequate returns on investment.

^ *Phoenix, Arizona*

Market Spotlight: *Austin*

While Phoenix was the first market where single-family build-to-rent communities began to be delivered in large quantities, Austin is forecast to be one of the next metro areas where this product type will have a significant impact.

Austin features nearly all of the drivers that fuel single-family build-to-rent development. The area features a young, growing, high-income workforce, rising home prices, and suburban submarkets where land can be acquired at prices, where SF BTR can yield adequate returns on investment.

Austin is also a market that consistently makes headlines attracting businesses to the area. In 2020, Tesla chose Austin as the site for its next Gigafactory. The $1.1 billion plant will build the electric car company's Cybertruck pickup, the Tesla Semi truck and the Model Y SUV. The facility is supposed to be delivered by the end of 2021 and should employ 5,000 workers.

Developers have already delivered projects totaling nearly 1,000 units throughout Austin's suburban areas and more projects are working their way through the development pipeline. In the southern suburbs of Kyle and Buda, some single-family built-to-rent development is already underway and additional projects are likely.

Pflugerville, Hutto and Manor are areas located fairly close to the new Tesla facility in the northeast portion of the market where there could be some future SF BTR development. These areas also benefit from being close to the State Highway 130, which connects Austin to San Antonio, serves as an alternative to the congestion of Interstate 35, and features the highest legal speed limit in the country—85 mph—in a few sections.

Major Players in the Single-Family Build-to-Rent Space

Taylor Morrison/Christopher Todd Communities

National homebuilder Taylor Morrison has partnered with Phoenix-based Christopher Todd Communities to develop single-family build-to-rent communities. Christopher Todd Communities has delivered communities totaling approximately 2,500 units in recent years.

The Christopher Todd Communities are all single-story units, and include smart home technologies, pet doors, and private backyards. Communities are gated, and include luxury amenities such as resort-style pools, ramadas, fire pits, fitness centers, yoga studios, and event lawns.

In the next several years, Christopher Todd and Taylor Morrison are on pace to deliver more than 2,000 new single-family build-to-rent units in Arizona alone, along with plans to expand the platform nationally.

A portfolio of Christopher Todd Communities accounted for the largest sale of single-family build-to-rent properties in the country in late-2020. A five-community sale totaling 943 units across the Phoenix metro area closed in phases in 2020, highlighted by the sale of the 313-unit Christopher Todd Communities at Stadium in November.

American Homes 4 Rent

American Homes 4 Rent has an inventory of nearly 52,500 single-family rental homes across 22 states, with its largest concentrations of homes in high-growth markets including Atlanta, Dallas-Fort Worth, and Charlotte.

The company is aggressively adding single-family build-to-rent communities to its portfolio. At the end of 2019, American Homes 4 Rent had build-for-rent communities totaling 1,054 units, and that figure swelled to approximately 2,000 homes in 2020. Additionally, the company holds land parcels for future development. Current land holdings would allow for approximately 5,000 units of new ground-up development.

American Homes 4 Rent continues its development activity. As of February 2021, the company had completed 65 new rental home communities in approximately 15 markets.

Top markets for new development include Atlanta, where it has finished ten communities and has another six scheduled, and several Florida markets, including Tampa, Jacksonville, and Orlando. Other notable markets for American Homes 4 Rent are Charlotte, where the company has six fully constructed communities, and Las Vegas, with five finished neighborhoods.

Invitation Homes

With approximately 82,500 homes across 16 markets in the country, Invitation Homes is certainly a significant force in the single-family housing rental market. To this point, Invitation Homes has stayed with its initial strategy of buying and renovating existing homes, rather than doing ground-up development of new rental communities.

Invitation Homes operates primarily in the high-growth Sunbelt markets, but the company also has inventory in markets including Seattle, Northern California, Chicago, and Minneapolis. The company has said its goal is to grow to approximately 150,000 homes in the next three to five years.

NexMetro

NexMetro Communities was one of the first entrants into the dedicated community space. NexMetro's luxury rental home neighborhoods operate under the Avilla Homes name and include signature features such as private backyards and front entries, open floor plans with high ceilings, granite countertops, stainless steel appliances, and hard-surface flooring. Each community is gated, has garages and covered parking, and offers amenities such as a resort-style pool, grills, lounge areas, walking areas, and a dog park.

NexMetro's strategy involves building the communities, leasing them up, and then selling the stabilized assets generally after 2-3 years of operation. NexMetro developed the first Avilla project in August 2015, with 125 homes in Goodyear, Arizona. NexMetro entered the Dallas-Fort Worth market in February 2017 with the delivery of its 122-home Avilla Premier community.

NexMetro has been on a growth trajectory in recent years. In 2018, NexMetro delivered its 1,000th Avilla home in July and closed on its 20th project in October.

The company reached another milestone one year ago. NexMetro surpassed 5,000 units of projects completed, under construction, or in development in April 2019. NexMetro has invested over $1 billion in the Phoenix, Dallas, Denver, and Central Florida markets.

Avanta Residential

In mid-2020, Hunt Companies launched Avanta Residential as a new business unit within the company to create single-family rental communities. The parent company Hunt has an extensive history in developing and operating single-family units, having delivered more than 70,000 units during the past 30-plus years.

While Hunt Companies has developed single-family rentals across a wide range of markets across the United States, the Avanta brand appears aimed at high-growth markets. During the first quarter, the company announced plans to develop a SF BTR community totaling 216 units at The Colony, a 2,300-acre master-planned community in Bastrop, approximately 40 minutes southeast of downtown Austin. The community is forecast to break ground this year and deliver in 2022.

Avanta is ramping up and is expected to be particularly active in this space in the years to come. In early 2021, the company agreed to a joint-venture agreement to develop single-family build-to-rent communities with private equity firm Iron Point Partners. Upon announcing the partnership, the companies outlined plans to develop thousands of units in the coming years across Sunbelt markets where SF BTR is becoming increasingly popular, including Texas, Florida, Georgia, and North Carolina. The company is also planning projects in Colorado.

BB Living/Toll Brothers

BB Living started buying single-family foreclosures but quickly transitioned into a SF BTR development strategy. The company started developing communities of single-family rentals in Phoenix, and has delivered six projects totaling approximately 500 units. The company has already successfully delivered and sold three projects.

In 2019, BB Living announced a venture with Toll Brothers, where the home builder would invest $60 million into a $400 million venture to aid expansion of the BB Living product line into new markets. The initial markets targeted for the next phase of the company's growth include: Denver, Las Vegas, Dallas and Houston, along with Jacksonville and Boise.

Investment Climate

As single-family build-to-rent projects have been delivered and successfully leased-up, properties have begun to sell. Investor response has been favorable, with demand fueled by properties that are nearly fully leased, are expected to have low renter turnover, and are forecast to post above-average rent growth in the next few years.

Pricing for single-family build-to-rent projects is generally at the higher-end of the range in markets where there have been sales. Per-unit pricing for SF BTR properties is generally consistent with newer, Class A, garden-style, suburban apartment properties.

The elevated demand for rental housing has driven cap rates lower. Cap rates for single-family build-to-rent housing have typically traded in a range of approximately 4 to 4.5 percent during the past year.

Looking ahead, more of these projects are likely to trade across a wider range of markets in 2021. The Phoenix market has the greatest inventory of existing projects, and a healthy development pipeline, and will likely record the greatest transaction activity in 2021.

Texas markets, led by Dallas-Fort Worth and Austin, have posted strong multifamily investment activity during the past several years, and developers are bringing new single-family build-to-rent projects through the construction pipeline. As these projects deliver in Texas, sales activity should be robust.

The Southeast is also likely to be an active area for new SF BTR development and investment in the next 12-24 months. Projects are already under way in Florida markets such as Orlando and Tampa, as well as in Atlanta and Charlotte.

Per-unit pricing for SF BTR properties is generally consistent with newer, Class A, garden-style, suburban apartment properties.

Financing Climate

Financing for SF BTR projects is more attractive than portfolios of traditional single-family rentals that could be scattered across submarkets, metro areas or regions.

There is significant appetite for single-family build-to-rent assets in the capital markets. Financing for SF BTR projects is more attractive than portfolios of traditional single-family rentals that could be scattered across submarkets, metro areas or regions.

Debt Financing (Acquisitions)

Debt financing for single-family build-to-rent communities that sit on a single land parcel are often treated similarly to traditional apartment properties, with Fannie Mae, Freddie Mac, and FHA, along with life companies and bank lenders all offering competitive financing options.

Debt Financing (Construction)

Construction lenders have become comfortable with this asset class over the last year or so especially after seeing the leasing velocity, liquidity in the permanent debt markets and liquidity in the sales market. Traditional banks to private debt funds are all active in the SF BTR space and looking to expand their portfolios for the right projects.

Equity Financing

While private equity has been active in the space for several years, we have recently seen a proliferation of institutional capital coming into single-family build-to-rent projects. Institutions have educated themselves on the asset class in quick order and are currently partnering or looking to partner with developers that can deliver a pipeline of projects.

Private-Equity & Partnerships

One of the primary funding mechanisms has been ventures formed by investment banks and private equity firms with SF BTR operators. J.P. Morgan formed a $625 million venture with American Homes 4 Rent, while Carlyle Group has teamed with Lafayette Real Estate. Home builders have also partnered with operators; in addition to Taylor Morrison's collaboration with Christopher Todd Communities, Toll Brothers has joined a venture with BB Living.

The most drastic change in rental markets in recent years has been the surge in demand from high-income renters.

Source: Joint Center for Housing Studies of Harvard University—America's Rental Housing 2020

Outlook

The development of single-family build-to-rent housing communities is on pace to accelerate rapidly in the coming years. Demand for this newer option in rental housing is expected to remain strong, fueled by the changing demographics of today's renters. These communities are going to serve as another housing option for renters whose lives have outgrown the traditional apartment unit, but where renting is still the best fit.

These communities will likely be concentrated in the high-growth parts of the country, generally in the Southwest, Texas and the Southeast. Developers are targeting these regions where housing demand is on the rise, particularly in markets that have thriving suburbs. Developers are likely to shy away from regions in the country that are not recording healthy in-migration and job growth, and markets where land costs are prohibitive to low-density rental development.

The investor appetite for these properties is likely to remain robust—fueled by the attractive demographics of the renter mix, low turnover, and the competitive advantages SF BTR housing units hold over older single-family homes serving as rentals. Several homebuilders have partnered with rental operators to develop new SF BTR communities.

The growing single-family build-to-rent segment is filling a void in the current market for rental housing. These properties have proven popular with renters and profitable for developers, and these successes will fuel additional projects.

Proven Results

NorthMarq has positioned itself as an early leader in brokerage and financing single-family build-to-rent transactions. Our professionals have assisted on the sale and financing of approximately 1,000 units of SF BTR transactions totaling more than $230 million. We look forward to working with our clients in this emerging segment of the rental housing market.

Recent SF BTR Transactions

$235,500,000
Transaction volume

$249,735
Price per unit

943
Total units

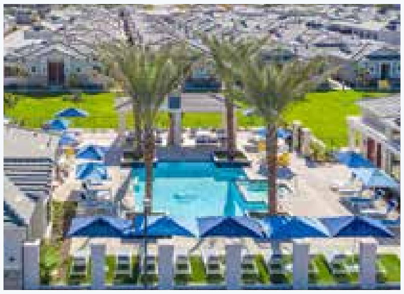
$142,914,000
Financed volume

Under Contract

Christopher Todd Communities At Mountain View
14155 West Mountain View Boulevard
Surprise, Arizona
217 Units

Village Greens of Queen Creek
21515 East Village Loop Road North
Queen Creek, Arizona
50 Units

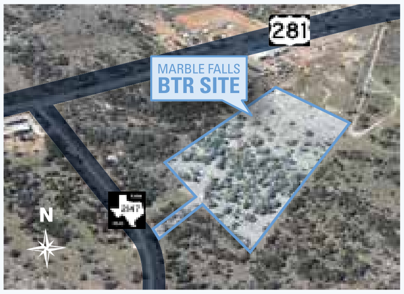
Actively Marketing



Christopher Todd Communities At Estrella Commons
15385 West Fillmore Street
Goodyear, Arizona
286 Units

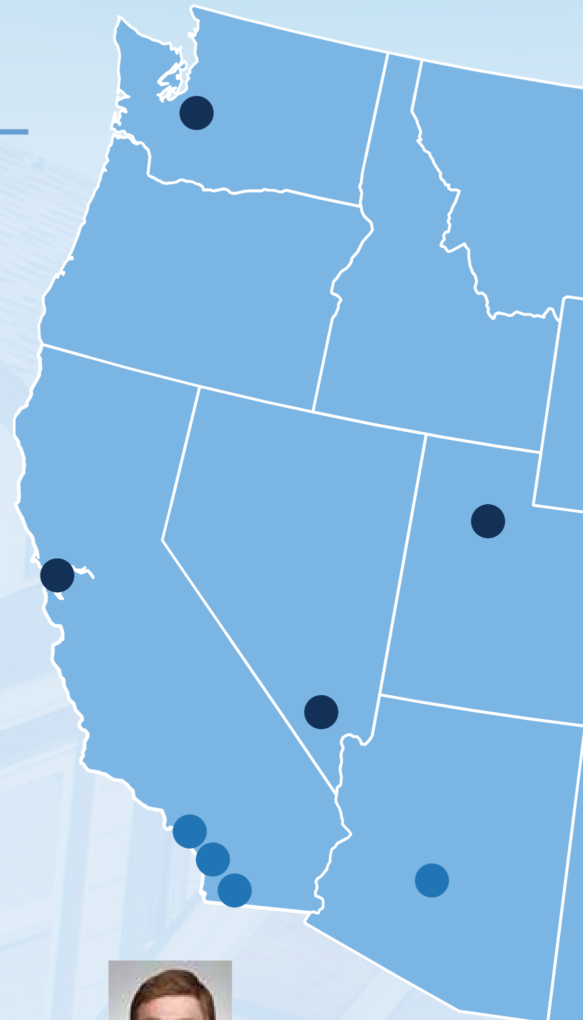
Christopher Todd Communities On Happy Valley
11903 West Happy Valley Road
Peoria, Arizona
222 Units

Danbury Residences
2607 East Danbury Road
Phoenix, Arizona
17 Units



BTR Land Site
1415 Highway 281
Marble Falls, Texas *(Austin MSA)*
16.276 Acres *(24 Units Per* Acre)

Our Team of Experts



Strength in numbers–yours & ours

With demonstrated expertise and with skilled experts operating in the markets where the single-family build-to-rent segment is growing the fastest, NorthMarq is the industry leader for brokerage and capital markets activity in the space.

Please contact one of our SF BTR experts for your financing or brokerage needs.

Investment Sales Team

Trevor Koskovich
PRESIDENT
NATIONAL DIRECTOR BTR
602.952.4040
tkoskovich@northmarq.com

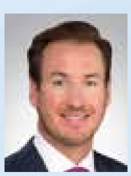
John Currin
SENIOR VICE PRESIDENT
EAST REGION
704.595.4276
jcurrin@northmarq.com

Scott Lamontange
MANAGING DIRECTOR
CENTRAL REGION
512.450.6820
slamontange@northmarq.com

James Roberts
SENIOR VICE PRESIDENT
CENTRAL REGION
972.455.1942
jroberts@northmarq.com

Debt & Equity Team

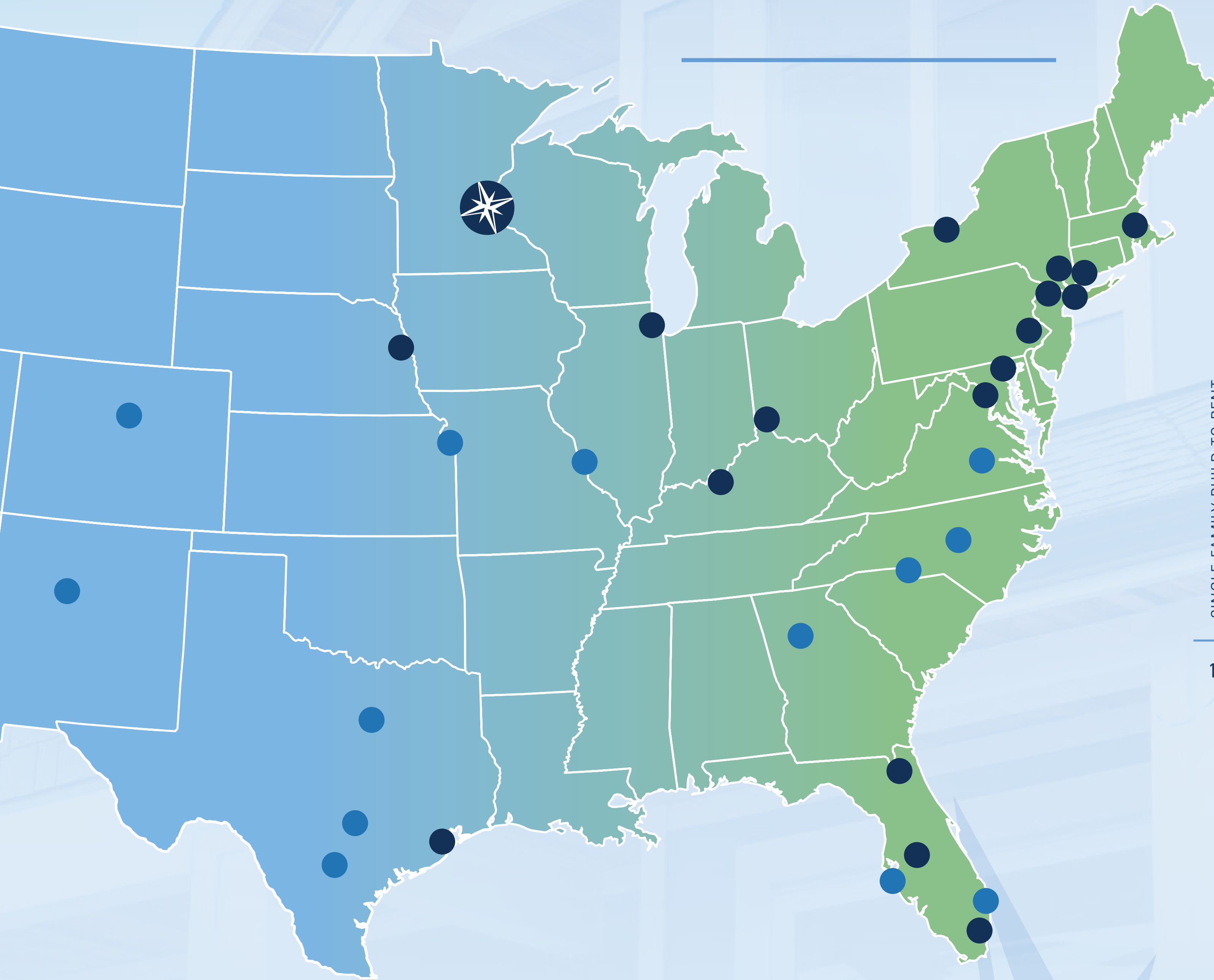
Jeff Erxleben
EXECUTIVE VICE PRESIDENT
CENTRAL REGION
972.455.1934
jerxleben@northmarq.com



Brandon Harrington
MANAGING DIRECTOR
WEST REGION
602.508.2204
bwharrington@northmarq.com

Faron Thompson
MANAGING DIRECTOR
EAST REGION
678.954.4674
fthompson@northmarq.com

Will Hancock
VICE PRESIDENT
CENTRAL REGION
972.788.3420
whancock@northmarq.com



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For more information, please contact:

Trevor Koskovich
PRESIDENT - INVESTMENT SALES
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

Corporate Headquarters
3500 American Blvd
Suite 500
Minneapolis, MN 55431

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

Learn more about us @ NorthMarq.com