OCTOBER 2024

Build-to-Rent Overview

Build-to-rent (BTR) housing has received considerable attention recently, and, while total production levels are still relatively low – estimated at less than 10% of single-family completions – they have increased substantially over historic averages. BTR projects are sometimes referred to as single-family rentals because they are composed of one-unit structures. They can be detached or attached, consisting of either large units or small ones. However, unlike traditional single-family rentals, we define BTR projects as being contiguous, large housing sub-developments, consisting of 25 or more housing units, usually located on one tax lot, and centrally managed by experienced rental housing operators. BTR developments often have shared amenities, such as on-site maintenance, a pool, or indoor recreation facilities, making them similar to living in a garden-style apartment property, rather than in an individual single-family rental home.

BTR Encompasses a Wide Range of Housing Types

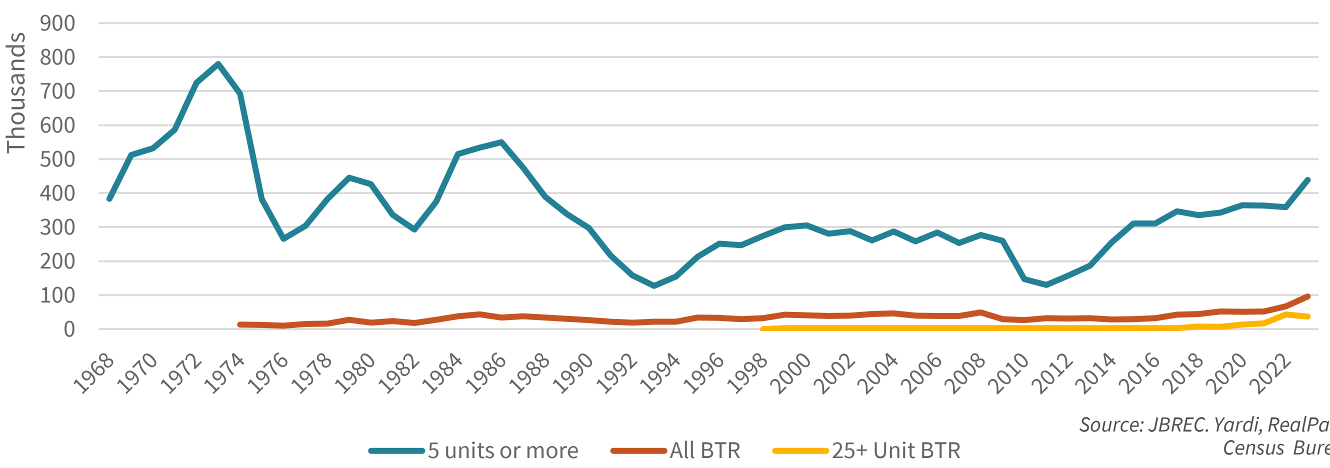
BTR is a relatively new term in the context of housing, and definitions vary. Usually, it refers to purpose-built multifamily developments where no units are stacked, i.e., no tenant lives above or below another tenant in the same structure. This includes some housing types that have been in existence for decades, particularly purpose-built rental townhome developments, and some new types, such as purpose-built rental single-family detached communities. John Burns Research and Consulting (JBREC) categorizes the following product types as BTR:

- Townhouses: Attached one-unit homes, typically with two stories, dedicated parking, and permitted as individual real estate tax lots.
- Horizontal Apartments: Small one-unit homes, usually with a yard, dedicated surface parking, and typically permitted as a single multifamily development.
- Single-level Rowhomes: Attached or semi-attached one-story, one-unit properties, usually with a dedicated garage, and typically permitted as individual lots.
- Single-Family Detached: Detached one-unit homes, usually with attached garages and permitted as individual lots.
- Mixed: Developments that are composed of a combination of two or more of the above types.

BTR Construction in Context

BTR construction levels are often measured using Census Bureau data, which provides annual construction estimates of one-unit structures that are purpose-built for rental. These are shown in the chart below as “All BTR.”

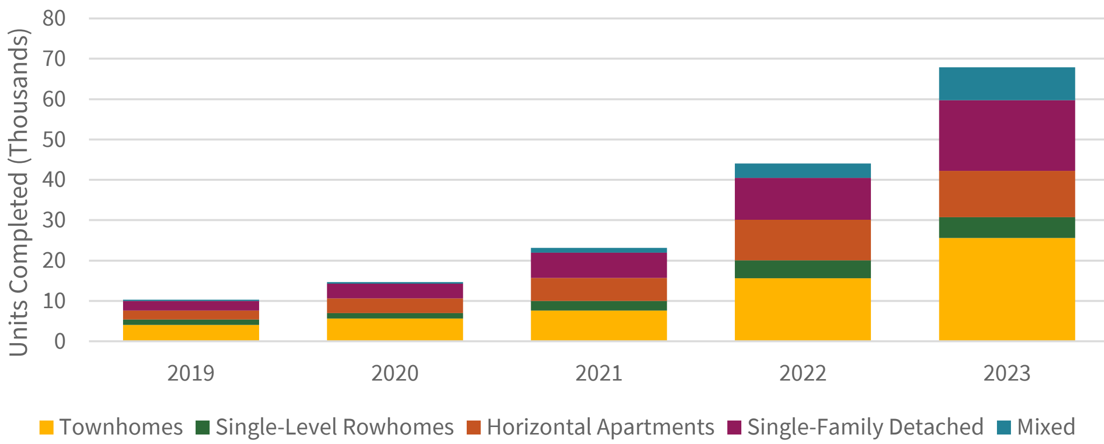
BTR Completions by Property Size



Source: JBREC. Yardi, RealPage, Census Bureau

However, many of the units that fall under the Census Bureau's definition of BTR are constructed by small-scale developers building only a few units at a time. Larger-scale developments of 25 or more units are a subset of this total, and volumes in this segment have been relatively small, never exceeding 70,000 units completed in any given year. About 40% of these BTR units are in townhome developments, but nearly a quarter are in single-family detached communities, according to data from JBREC. Production levels of these larger-scale BTR developments are shown below.

Recently Constructed Large-Scale BTR Units by Product Type



Source: JBREC. Yardi, RealPage

Large-scale BTR production surged in 2022 and 2023, driven by a rise in generation across product types. Twenty-five-plus unit BTR production is expected to decline in 2024, with JBREC estimating production will decline slightly to nearly 59,000 units for the year. We believe that this decline in production is the result of rising capital and operational expense costs, and slowing rent growth, which have made it more difficult for some projects to be profitable.

Fannie Mae has provided liquidity for BTR since at least the mid-1990s, mostly through financing rental townhouse developments. As BTR offerings have expanded to include purpose-built, for-rent single-family detached developments, Fannie Mae has provided financing on these types of rental properties.

Drivers of BTR Growth and BTR Tenant Profile

Demand for BTR increased sharply during the pandemic and resulted in a proportionally larger subsequent increase in new construction than in the single-family or traditional multifamily rental sectors. BTR completions increased 190% in 2022 and 463% in 2023 relative to 2020 completions. In comparison, traditional for-sale single-family completions were up only 10% in those years, and multifamily rental completions saw a slight decline in 2022 and a 20% increase in 2023.

This spike was likely due to several factors. Very low for-sale single-family inventory coupled with higher home purchase prices kept many households in the rental sector. BTR offered larger unit sizes than the traditional multifamily sector, which became increasingly attractive with the rise of work-from-home policies for many people. Supply was also spurred by the maturation of mid- and large-scale single-family rental owners who had built their management capacity. These owners became eager to build or buy these developments and hold and manage them, particularly since high prices and capital costs made it burdensome to buy existing single-family homes on an individual or portfolio basis.

In many ways BTR tenants look more like first-time homebuyers than multifamily dwellers, according to survey data collected by JBREC. They tend to be middle-income or higher. For example, in 2023 the median income of BTR households was around $100,000, close to the median of U.S. homeowners, and much higher than the income of U.S. renters. Most BTR tenants plan to buy their next home, but, relative to all renters, they are more likely to be renters-by-choice. Indeed, Fannie Mae found that 74% of all renters report that they intend to buy their next home, relative to 56% of BTR tenants. Interestingly, 31% of BTR tenants were previous homeowners, and this ratio was much higher among older families with children and older singles and couples, at 40% and 72%, respectively. Most are pandemic-era movers from outside the metro: 64% moved from a different metro area.

Demographically, about 40% were households with children under the age of 18, while the remainder were nearly evenly split between older singles and couples, and younger singles and couples. The prevalence of households with children is one of the few ways that BTR resembles SFR and makes BTR tenants distinct from apartment-dwellers and owner-occupants. Only about a quarter of apartment tenants reside with children in the unit and about a third of owner-occupants do. BTR tenants appear to prefer BTR over SFR because of the on-site maintenance services, which 84% of tenants reported as important, and that their units were new (JBREC).

BTR Owners Comprise Companies of Varying Sizes

The table to the right provides a current list of the firms with the largest number of BTR units tracked by JBREC.

Some of the largest BTR owners are institutional single-family rental firms, such as American Homes 4 Rent (AMH), Invitation Homes, and Tricon. According to JBREC data, AMH currently has the largest number of BTR units under construction, at 2,757. Invitation Homes recently announced its intentions to invest $1 billion in acquisitions, including the purchase of thousands of homes from Pulte and other traditional single-family homebuilders. Tricon expects to expand its BTR portfolio by 1,000 units this year. Pretium, the largest single-family rental operator in the US with a portfolio of over 92,000 units, recently invested $2.5 billion into BTR.

Select BTR Owners and Number of Units

Owner	BTR Unit Count
Redwood Living	16,230
AMH	6,245
D.R. Horton	5,550
Fundrise	4,390
NexMetro Communities	3,555
Lewis Group of Companies	3,417
Inland Real Estate Group	3,355
Cavan Companies	2,703
Quinn Residences	2,541
Wan Bridge	2,348
Capstone Communities	2,339
W3	2,208
Jim Chapman Communities	1,554
BB Living	1,341
Haven Realty Capital	1,215

Source: JBREC. Yardi, RealPage

Many BTR owners focus solely on BTR, with no scattered-site single-family rental homes in their portfolios. For example, Redwood Living, Inc., with over 16,000 units, has built up a substantial portfolio, mostly of single-level rowhomes in Midwest metros such as **Columbus**, **Indianapolis**, and **Detroit**. However, most prominent BTR-focused firms are relatively small, such as NexMetro, with a little more than 3,500 BTR homes mostly in **Dallas-Fort Worth** and **Phoenix**; Wan Bridge, with nearly 2,400 BTR homes all in Texas; and BB Living with fewer than 1,400 homes, mostly in **Phoenix**.

Some major BTR developers, such as D.R. Horton and Capstone Communities, specialize in a business model that focused on generation instead of holding. These firms build and stabilize BTR communities, then sell them to other BTR operators and investors.

Lastly, some major BTR owners either own or manage both BTR and apartment properties. One of these is Greystar, currently the largest apartment owner in the US, who also manages about 18,000 BTR units and has about 4,500 additional BTR units in its construction pipeline. Some smaller firms, such as The Empire Group and the Lewis Group, also own and operate both BTR and apartment rental communities, as well as other commercial real estate property types.

Geography of BTR

BTR properties and units are geographically concentrated in different patterns than apartment properties, as shown in the table below. Neither of the two largest apartment metro markets, **New York** and **Los Angeles**, have substantial stocks of BTR units or BTR units in development. The metro with the most BTR units, **Phoenix**, is not among the top ten largest apartment markets. BTR is concentrated in Sunbelt metros, particularly **Phoenix**, **Dallas-Fort Worth**, and **Houston**, all of which have over 10,000 BTR units.

The pipeline of BTR development, which JBREC reports as projects that are in the conceptual, planning, and under-construction phases, is large and continues to be concentrated in Sun Belt metros. **Phoenix** could double its BTR stock in the next few years, and currently over 10,000 BTR units are under-construction in the metro.

Top Ten BTR Markets, Contrasted with Apartment Market Size and BTR Pipeline

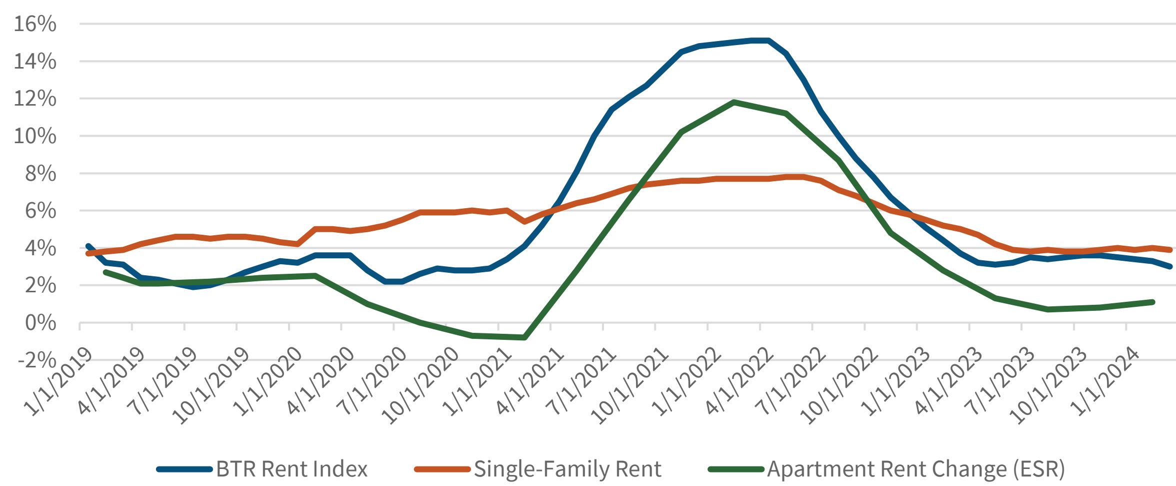
Market	BTR Units	BTR Rank	Apartment Rank	Units in Development Pipeline
Phoenix	21,070	1	13	44,528
Dallas-Fort Worth	14,198	2	4	21,354
Houston	10,758	3	5	9,323
Atlanta	7,879	4	10	16,432
Inland Empire	6,638	5	25	3,755
Kansas City	4,525	6	31	3,843
San Antonio	4,417	7	23	7,277
Charlotte	4,375	8	24	15,729
Tampa	4,027	9	20	6,769
Austin	3,915	10	17	11,656

Source: : JBREC. Yardi, RealPage

BTR Rent Growth Tracks More Closely to Multifamily Than Single-Family

As seen in the chart below, BTR rent growth follows apartment rent growth much more closely than it does the single-family rental market. We believe that one of the reasons BTR rent growth likely declined more sharply than apartment rents since 2022 is because of a sudden spike in new supply highly concentrated in a handful of metro areas, such as **Phoenix**, **Dallas**, and **Charlotte**. Indeed, overall BTR production has been much more uneven than single-family and multifamily new construction. New construction in the Northeast region of the country, which tends to be in the form of townhomes and single-level rowhomes, has been far more limited in number than in many of the Sunbelt metros, which are more concentrated in single-family detached and mixed developments.

Estimated Rent Growth by Rental Property Type



Source: John Burns Research and Consulting, Fannie Mae Multifamily ESR

The different geographic profiles of the BTR and multifamily rental stock explains some, but not all, of the difference in rent growth. The table to the right compares estimated year-over-year rent growth at the end of the first quarter of 2024 in select metros for both the BTR and apartment sectors. Rent growth diverged between the sectors in most metros. However, BTR rents increased sharply in **San Antonio**, while estimated apartment rents fell, and in **Austin** BTR rents dropped much faster than apartment rents.

BTR and Multifamily Rent Growth – Select Metros

Metro	Build-to-Rent YOY Growth (JBREC)	YOY Rent Growth (Fannie Mae MF ESR)
Phoenix	-3.5%	0.25%
Houston	5%	0.5%
Inland Empire	2.3%	0.5%
Kansas City	5.4%	1%
San Antonio	6.5%	-0.5%
Austin	-9%	-1%

Source: John Burns Research and Consulting, Fannie Mae Multifamily ESR

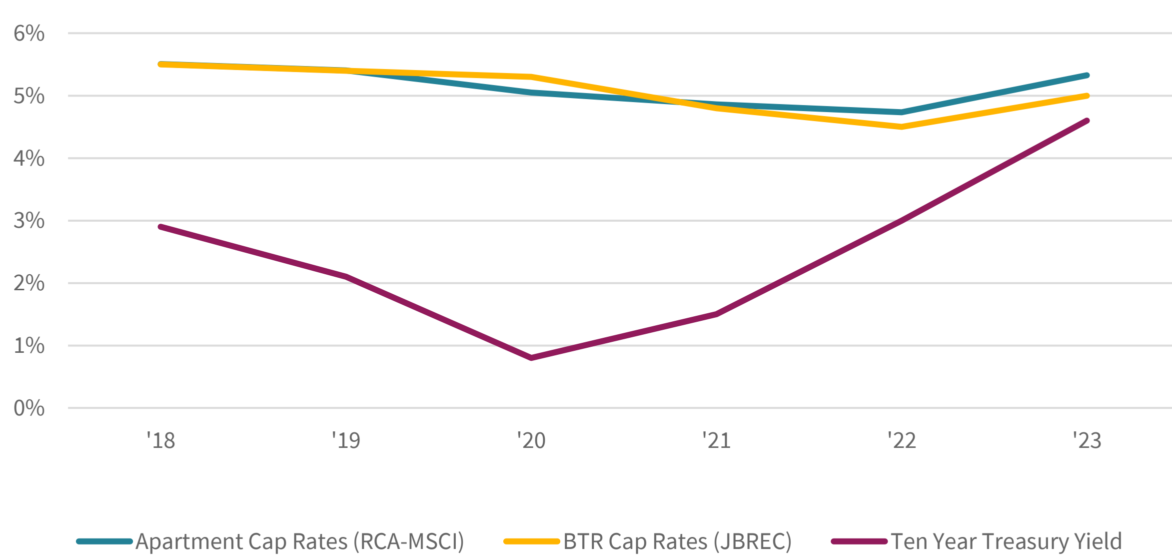
Both supply and demand factors likely explain the divergence in BTR and apartment trends. Supply factors include different production patterns and different BTR product type profiles. For example, data from real estate research firm Yardi, Inc., shows that while BTR production boomed in both **Houston** and **Austin** in 2022 and 2023, **Austin's** stock rose proportionally faster. About 65% of **Austin's** current BTR units were produced in those years, relative to only about 15% of **Houston's**, potentially explaining the relative weakness of BTR rent gains in **Austin**. Over-production likely also explains divergence in **Phoenix** where, while apartment construction has boomed, BTR construction has increased proportionally more. Product type likely is a factor as well. 84% of the **Inland Empire's** BTR stock in product types that are the most like apartment units: single-level rowhomes and townhomes, which is a likely factor in closer rent trends in the metro. **Kansas City** and **San Antonio**, however, have substantial stocks of single-family detached BTR, which tends to attract a different tenant profile than multifamily rental units and likely contributes to their divergent rent growth.

Overall, vacancy rates in BTR have been lower than for multifamily rental properties. Currently BTR vacancies are increasing, but, at just 4.0% vacancy, they are still below the national estimated multifamily vacancy rate of 6.0%. This pattern typically holds true at the metro level as well, where in most metros, BTR vacancy rates as reported by JBREC are around two percentage points lower than our estimates for multifamily rental properties. Interestingly, over the past two years horizontal apartments have performed slightly worse in terms of occupancy and rent growth than other BTR product types due to their more direct competition with multifamily properties.

BTR Capitalization Rates Are On Par with Multifamily Rates

The chart below shows average annual capitalization rates for BTR and multifamily properties compared to yields on 10-year Treasury bonds. Overall average cap rates for BTR, as reported by JBREC, have closely followed trends of multifamily properties, as reported by MSCI Real Assets.

Capitalization Rates for BTR and Multifamily Properties



Source: John Burns Research and Consulting, Yardi, MSCI Real Assets, Moody's Analytics

BTR Outlook: A Small-but-Growing Alternative to Homeownership

BTR is still a nascent asset class in the housing sector, but it is growing, and we believe it could become a larger alternative to homeownership over the longer term. The pandemic led to a large rise in demand for BTR, which the industry responded to by generating a sudden influx of new units, as well as creating a new asset class by including some existing housing product types.

Some major single-family developers, such as D.R. Horton and Pulte, are now building large numbers of BTR units in addition to their for-sale units (D. R. Horton has built 14,000 BTR units to-date and Pulte plan to build 7,500 over the next five years for Invitation Homes alone), and larger-scale multifamily developers and operators are increasingly investing in BTR. The financing for BTR seems to be maturing, with reports of some of the more traditional multifamily lenders, as well as newer entrants, such as debt funds, showing interest in the property type.

Property sales of BTR reached an estimated $4 billion in 2021 and $3.5 billion in 2022, though they are down substantially in 2024, with only $970 million through August 2024, according to data from JBREC, Yardi, RealPage, and others. While tenant demand has declined since pandemic peaks, several factors will likely keep tenant demand, particularly for BTR, at above-average levels, including:

- For-sale affordability is still very poor in many places, and in most metro areas the monthly cost of renting a BTR unit is hundreds of (and often over a thousand) dollars below the monthly cost of purchasing an equivalent single-family home.
- New single-family for-sale construction, which we project at about one million starts in 2024 and 2025, is not increasing at a rate that is likely to make for-sale homes substantially more affordable over the short-term.
- While we currently expect mortgage interest rates to decline to an average 5.7% in 2025, we believe this decline will also only marginally improve for-sale affordability.
- Work-from-home policies continue to exist, despite many employers bringing workers back to the office at least a few days a week. According to JBREC surveys, 23% of BTR tenants work from home full-time and an additional 17% are hybrid workers working from home part-time. As a result, we believe that demand for the larger units that BTR provides is unlikely to decline, which should boost BTR demand relative to multifamily for many households, especially those with children.

Headwinds include a possible over-supply in some markets, though this problem appears to be less acute than in the multifamily sector. Development will likely remain constricted due to still-elevated capital costs and operational expenses, coupled with a shortage of available land and high land costs. Many planned BTR communities are being postponed due to these factors. Some of the BTR developments that are going forward are in outlying sub-markets, where units command lower rents.

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