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Build-to-Rent's Growing Appeal to Multifamily Investors

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Executive Summary

Build-to-Rent (BTR) is becoming one of the most dynamic and rapidly growing segments of the U.S. housing market. With multifamily investors seeking new avenues for growth, BTR presents a compelling investment case due to favorable demographics, lifestyle trends, and a pressing national housing shortage. This white paper examines the primary drivers fueling the growth of the BTR market in the U.S., the movement of multifamily investors into this niche, what attracts investors to BTR, the challenges the asset class faces, and why LendingOne is a preferred lending partner for owners and operators in this space.

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One of real estate's fastest-growing sectors is rapidly gaining popularity in the U.S., driven by a number of economic factors and multifamily investors taking a shine to the niche asset class.

Build-to-Rent (BTR) properties are new residential developments that typically consist of 50 or more homes or townhouses that are operated in a similar fashion to multifamily properties. Often ranging in size between one and four bedrooms, BTR communities are owned by investors, professionally managed, and often have community amenities and an onsite leasing office.

These properties can be distinguished from multifamily properties in that they are homes and townhomes, as opposed to apartments, and, perhaps most distinctive, BTR residents do not have a neighbor above or below them. Often considered a subsector of Single-Family Rentals (SFR), BTR communities are designed solely with renters in mind, while SFR properties can be scattered and are often owned by individual landlords.

BTR communities first emerged during the Great Recession, primarily in Phoenix, Arizona. Ever since, the space has experienced significant growth, mostly in large Sunbelt markets like Phoenix and Dallas, but also in Midwestern hotspots like Columbus, Kansas City, and Detroit, according to CBRE.

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The Evolution of BTR

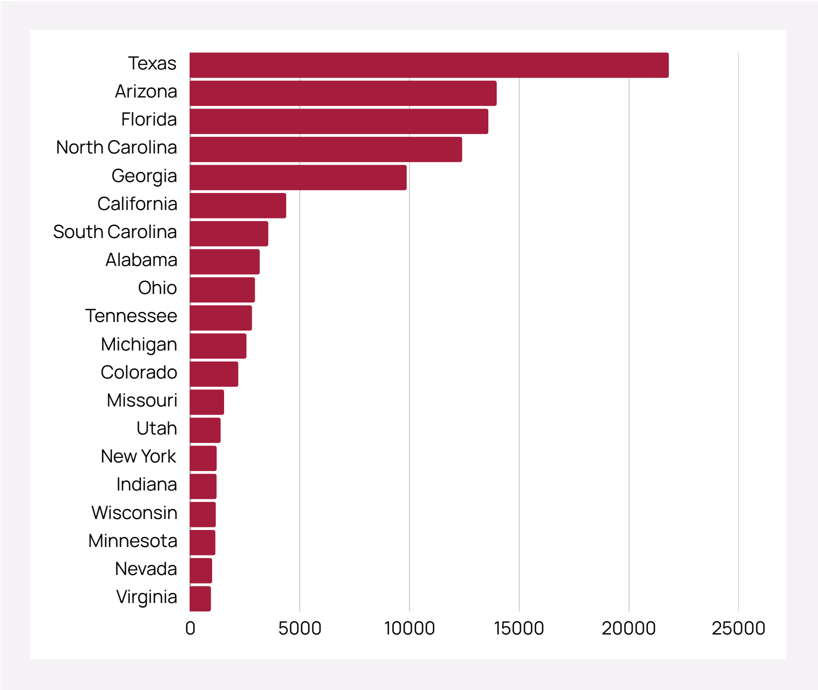
The rise of BTR couldn't have been possible without SFR. Before the Great Recession, SFR was predominantly small "mom-and-pop" investors or small businesses owning one or a handful of rental properties. But after the downturn, a surge in home foreclosure rates led to a wave of private and institutional investors acquiring large swaths of distressed homes and converting them into rental properties.

SFR started to become popular with big investment groups like Blackstone, who were drawn by the bargain home prices and low interest rates at the time. When BTR began to emerge as a new sub sector of SFR in the early 2010s, institutional investors again began to follow.

While similar in several ways—rent is typically paid monthly, community amenities are included, and leases tend to be one-year in length—there are some key differences separating BTR from SFR and multifamily properties. SFR properties are existing single-family homes that are rented out, and multifamily properties are multi-unit buildings typically configured as apartments. In BTR, properties are new homes designed and built specifically for rental. Homes are constructed together in communities, and tend to command higher rent prices due to their larger unit sizes, high quality design and finishes, and family-oriented amenities.

Some of today's largest owners and operators of BTR housing include Tricon Residential, Invitation Homes, and American Homes 4 Rent. The latest market data shows that across the country, there are more than 110,000 single-family rental homes under construction in 613 BTR communities, according to a **report** from Point2Homes. It's a subsector that is so new, one-quarter of the total stock was built in the past three years.

Top 20 States with Most Units in the Pipeline



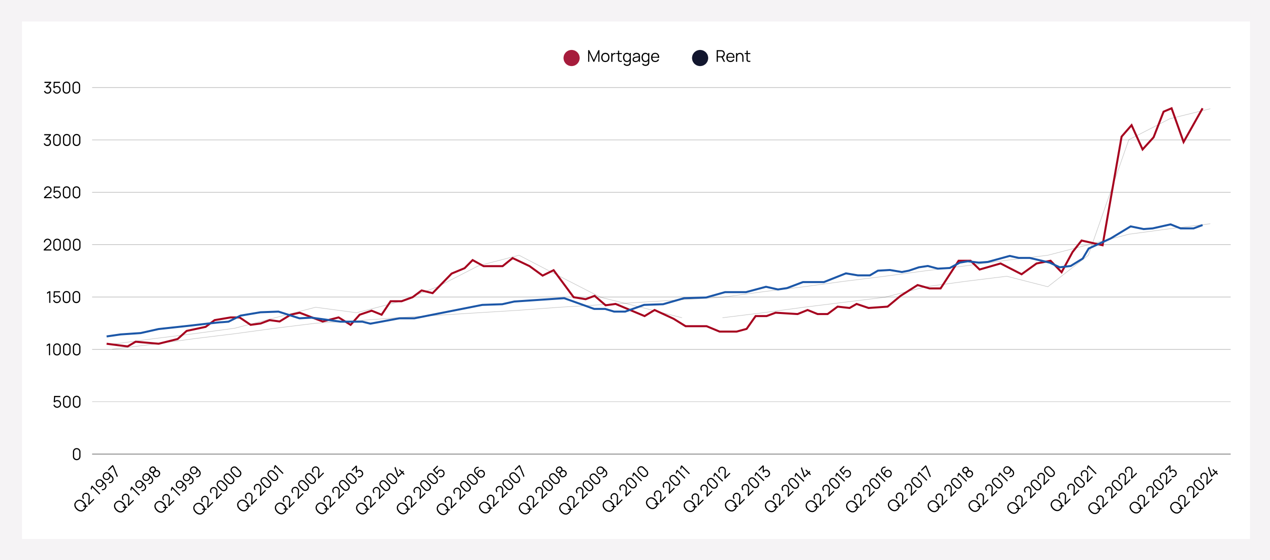
Source: Point2Homes Analysis of Yardi Matrix Data

Growth Drivers

Several factors are behind the rapid growth of the BTR sector. One of the most prominent is the nationwide housing shortage. According to Freddie Mac, the U.S. is currently short of its housing needs by 3.7 million units. Given that the majority of homes in the U.S. are single-family (close to 70 percent, according to the Urban Institute), a significant portion of the housing shortage can be attributable to the single-family sector.

Many Millennial would-be homeowners, burdened by student loan debt, stagnating wages, and steep housing costs, are staying renters longer, increasing the demand for more rental properties—especially BTR properties. In fact, in Q4 2024, the average monthly mortgage payment for a newly purchased home was **52 percent higher** than the average monthly rent payment, according to CBRE. And interestingly, many BTR renters are renters-by-choice. A Fannie Mae **report** found that 74 percent of all renters intend to buy their next home, while only 56 percent of BTR tenants said the same.

Average Monthly Mortgage Payment vs. Monthly Rent



Source: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com®, FHFA, July 2024.

That affordability gap has jumped by 5 percent over the past five years, and while the premium to purchase a home is expected to decline over the next several years, experts also anticipate it will remain wide enough to keep many Americans renting for longer. The demand for BTR has jumped since the pandemic, when Americans spent more time at home. Many families sought more space and amenities outside of dense city centers, which led them to single-family rentals in suburban settings.

Getting in the Game

Homebuilders are increasingly becoming involved in the BTR market. High interest rates in recent years forced many homebuilders to give buyers large concessions on mortgages and subsidize refinancings and down payments to sell homes. Market conditions also led some builders to begin selling swaths of homes to BTR operators, while others are holding portions of homes in new communities as rentals instead of selling them.

Many of the country's largest homebuilders, including Lennar, D.R. Horton, and Meritage, have entered the BTR fray. In the summer of 2023, Pretium Partners, a major BTR player, struck a deal with D.R. Horton to acquire 4,000 single-family rental homes, some of which were completed and others still under construction, in a $1.5 billion deal.

Institutional capital has been an important factor in growing the BTR segment. Attracted by outsized returns and favorable fundamentals, private equity firms like JP Morgan, Blackstone, Carlyle, and Cerberus have poured billions of dollars into the sector over the past five years, helping to speed up the development of communities with high-quality amenities.

At the beginning of 2024, Blackstone acquired Tricon Residential, a Canadian developer with a portfolio of 38,000 BTR homes in the U.S., for $3.5 billion. Additionally, Blackstone said it would invest another $1 billion into new BTR communities.

Investor Crossover

As the BTR segment has grown, an increasing number of multifamily owners and operators have begun moving into the space. Some of the country's largest owners of multifamily properties, like Greystar and MAA, are investing in BTR communities.

Greystar, frequently named the largest owners of apartments in the U.S., launched a BTR platform in 2023 called Summerwell, a move **described by an executive** at the company as a "natural extension."

BTR is attracting multifamily investors from several angles. One of the biggest draws is the potential for higher returns. In general, BTR rents are higher than traditional multifamily rents, but they can vary by market and property type. From an operational perspective, the construction and development of BTR communities can be more efficient. Since most BTR communities are newly built with high quality materials, they need fewer repairs and maintenance than older rental properties, which means more predictable income streams for investors.

Location and Design

There is also an advantage in having BTR communities grouped together geographically. In some cases, SFR properties are scattered throughout a region rather than grouped together in a community. By having the homes built in the same spot, operators can more easily manage the properties similarly to multifamily properties and offer more community amenities.

That design is another big attraction to renters, many of whom seek more amenitized living in suburban areas outside of dense urban centers. BTR renters are often families looking for more space, good school districts, and a place they can stay longer.

Key Differences

01 Much of the new development in BTR is happening in the country's Southeast region, where there is still a good amount of buildable land within reasonable proximity to larger metro areas. Markets in Texas, the Carolinas, Florida, Georgia, and Tennessee have been hotspots for migration since the pandemic, and are places where BTR is in high demand.

02 While there is certainly overlap between the multifamily and BTR asset classes on some levels, key differences separate the two segments. From an investment perspective, multifamily properties are primarily valued on a cash flow basis. BTR communities, on the other hand, are valued on a cash flow and a retail sales value, offering investors more flexibility in exit strategies.

03 In the multifamily market, properties are typically sold as a whole asset. Rarely are apartments within multifamily rental properties sold separately. BTR communities, on the other hand, can be sold as an entire community or in portions to either individual homeowners or investors.

04 BTR loans are typically floating-rate with terms between 36 and 60 months. When seeking financing for a project, BTR developers need to demonstrate that a community will scale up, stabilize, and become cash flow positive over a defined period.

Strong Lending Partner

Picking the right lender is crucial in a BTR deal, especially since there are special nuances to the relatively new BTR segment. **LendingOne**, a Florida-based direct private real estate lender, is one of the leading firms in the BTR arena. With more than a decade of experience in the SFR investment space, the lender is backed by a leading global asset manager and has the distinction of being involved with BTR from the sector's early stages.

As one of the few lenders focused on the niche BTR asset class, LendingOne has an entire team dedicated solely to institutional clients. LendingOne offers borrowers tailored products and services to support BTR and SFR strategies, including permanent financing, bridge financing, and bridge-to-permanent financing. The company's financing and loan options offer much flexibility for BTR developers, which many in the space seek when undertaking projects.

Case Studies

Center Creek Capital Group

Center Creek Capital is a Washington, D.C.-based investment and development firm in the single-family space. The firm originally started doing scattered site SFR: purchasing older homes, renovating them, and renting them out. Now, the company is developing BTR communities typically located in infill locations in walkable, denser urban areas.

Two years ago, Center Creek began working with homebuilders, some of whom had quarterly quotas. By the end of those periods, some were interested in selling a portion of the homes, which was how the company entered the space. Center Creek is focused on the workforce housing demographic, and they see a big mismatch in supply and demand in that space.

Center Creek worked with LendingOne on two scattered term loans with revolving facilities. Since Center Creek was buying a large number of homes at the same time, they needed a tailored loan solution. By working with LendingOne, they were able to use a warehouse facility, which helped the company amass a sizable group of homes, renovate them, get them leased up, and then put them on a term loan.

> **"LendingOne has shown that they are focused on getting deals done that make sense for them and us," said Dan Magder, Managing Partner at Center Creek Capital Group. "Everybody talks about it, but they actually do it. They've been fantastic about getting us from here to there."**

APL
Asia Pacific Land (APL) Group

The APL Group is a private investment firm with offices in the United States, Europe and Asia with its parent company located in the United States. The firm has conducted more than $24 billion in transactions since its founding in 1994. After initially focusing on real estate in the Asia Pacific region, the company has expanded its investments into renewable energy, digital infrastructure, and private equity investments globally.

In 2020, APL began investing in the SFR and BTR markets in the U.S. To date, the company owns 16 communities and more than 1,000 units across the Sunbelt and the Midwest regions. As the firm looked to expand its BTR portfolio through both building and purchasing communities, leaders at APL realized they needed a firm that could be creative problem solvers and put together something that worked for them while giving them the flexibility to stay competitive.

"LendingOne stepped up immensely," said Richard Kramer, Managing Director, Head of North American Real Estate at APL Group. "You can get a low rate somewhere else but they won't be there when you're in the trenches."

APL needed financing for about 10 communities in various stages of development and across several states and counties. It was a more involved and complicated deal than most that LendingOne does, but the team was able to quickly put together a solution for the firm. **"They get the industry and aren't just putting out money like a lot of companies trying to make a quick buck," Kramer said. "They're always available and always listening."**

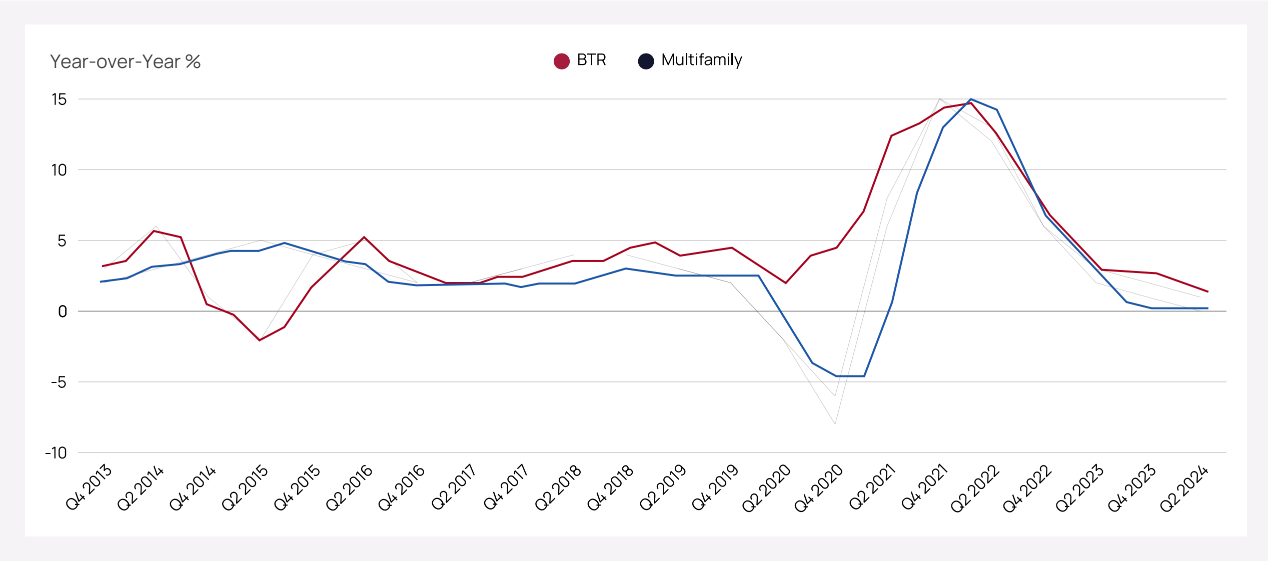
Opportunities and Growth

The future of the BTR sector is bright. With home prices at record highs and mortgage rates hovering near 7 percent, the stock of for-sale homes remains a tough market for buyers. Because of this, single-family rental homes are filling a need, as would-be homeowners continue to look for rentals in suburban neighborhoods.

While BTR is growing rapidly, the asset class makes up a small share of the housing industry. In the second quarter of 2024, BTR construction starts made up 8.1 percent of all single-family housing starts, a jump from the pre-pandemic high of 5.8 percent in 2013 and a major jump from an average of 2.2 percent between 1975 and 2011, according to a report from Arbor Realty Trust. In places like the Southeast, where there is plenty of buildable land and strong demand, BTR is poised for massive growth.

While overall property sales of BTR are down, as well as rent growth, major single-family developers are now building large numbers of BTR, and the major factors fueling the BTR market are expected to remain for some time, keeping tenant demand for BTR at **above-average levels**, according to Fannie Mae.

BTR vs. Multifamily Rent Growth



Source: CBRE Research, Yardi Matrix, Q4 2022.

Conclusion

Multifamily investors will continue to be drawn to the BTR sector, and we can expect to see more and more multifamily owners and operators across the U.S. launch BTR platforms, invest in BTR communities, and make more meaningful shifts into this growing space.

Fueled by the ongoing lack of affordable housing in the U.S., high interest rates, and renters' increasing desire for rental properties with single-family home characteristics, the niche segment is booming. Millennial and Gen Z renters are increasingly looking at renting over homeownership in the face of steep home prices and student debt. BTR communities cater to their preferences and, in many cases, are cheaper to rent than buying a starter home.

For investors, BTR communities can offer significant advantages over traditional multifamily properties. Many believe that BTR is a better product than multifamily, given that the homes are newly built, often larger than traditional apartments, and offer lower cost to operators due to lower turnover. The segment also offers more options and flexibility for owners looking to sell.

Choosing the right lender is key to a successful outcome for BTR projects, and LendingOne's specialized expertise, tailored financing and loan solutions, and strong commitment to the BTR sector are helping many in the growing BTR sector do just that. Investors and developers in the BTR space should explore how LendingOne can help them achieve their goals by reaching out to the firm's dedicated experts.

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