Homebuilders Turn to Single-Family Rental Market in Changing Economy

BY ERIN MCLAUGHLIN

Long considered a niche market, single-family build-for-rent (BFR) communities are experiencing rapid growth, as a changing economy makes them attractive for institutional investors, developers/homebuilders, and tenants. For engineering firms that work in land development, there are growing opportunities to work with established homebuilder clients on this asset type, as well as newly emerging clients that focus solely on the single-family rental (SFR) market. Let's look at the growth, demand, unique features, and developers of this asset type.

DEVELOPERS/BUILDERS IN THE SFR MARKET:

- American Homes 4 Rent
- D.R. Horton
- FirstKey Homes
- Invitation Homes
- Lennar
- Progress Residential
- Pulte Homes
- Taylor Morrison
- Toll Brothers
- Tricon

GROWTH

According to the National Association of Home Builders (NAHB) there were 13,000 new single-family homes developed to operate as rentals from the start during the first quarter of 2022, up 63 percent from the same quarter in 2021. Homes built for rent currently represent just 5 percent of the homebuilding market, but that is up from a historical average of 2.7 percent, according to NAHB, and that growth has rapidly accelerated over the last few years. The sector saw capital investment surge to $45 billion in 2021, after being at just $3 billion in 2020, according to John Burns Real Estate Consulting (JBREC). Liquidity is not expected to be an issue for developers establishing themselves in this market, as demand and rising rental costs are expected to continue.

DEMAND

Demand in the SFR market is not expected to cool anytime soon. Renters are attracted to this property type—both during and coming out of the pandemic—because, unlike multifamily rental properties, the SFR homes generally have more living space, a yard, a garage, additional storage, and no neighbors above and below. With the importance of having private outdoor space increasingly realized during the pandemic, as well as the need for more space for folks who may be teleworking, strong interest continues. In addition, with fast-rising interest rates in 2022 (limiting the pool of buyers who may qualify to purchase single-family homes), and extremely low rates of supply for housing, demand is expected to continue to be strong.

GEOGRAPHY

Like with much residential development over the last several years, the strongest geography for building SFRs is the Sunbelt; this is not surprising since there is also considerably more land available in that region for low-density development than in the Northeastern and West Coast areas of the United States. Since the beginning of 2019, close to 50 percent of the delivered BFR units in the U.S. have been in the Census-designated South Region (which consists of 16 states from Delaware in the Northeast to Texas in the Southwest), according to real estate services firm NorthMarq. Top markets for rent growth reflect the Sunbelt's popularity, with the following metropolitan areas having the most significant annual rent growth of SFRs in 2021, according to JBREC:

Phoenix: +12 percent
Charlotte, N.C.: +11 percent
Las Vegas: +11 percent
Atlanta: +10 percent
Jacksonville, Fla.: +10 percent

SIGNIFICANT CLIENTS IN THE MARKET

Progress Residential is considered the largest builder in the market. According to a recent article in HousingWire, Progress Residential recently secured a $632.3 million loan for further development, backed by its existing 2,273 income-producing single-family rental homes. According to a report by Kroll Bond Rating Agency, "As of June 2022, Progress Residential had invested approximately $19.9 billion in its portfolio of more than 80,000 properties…Progress is the largest private owner and operator dedicated to the acquisition, leasing, and management of SFR properties throughout the U.S."

Additional companies making a big play include those that only do BFR communities, as well as more traditional homebuilders that see the upside in investing in the SFR market.

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Will CBDs Ever Be 'Central' to Cities Again?

As many office workers continue to work remotely, increasingly by choice rather than a pandemic-related necessity, the Central Business Districts (CBDs) of large cities are realizing that the low occupancy of offices and decreased foot traffic may not be a temporary problem. Leaders are rethinking how to attract workers and visitors. There are common themes and issues in many large cities, where dense downtown cores made up largely of office space are continuing to lack vibrancy. The Kastle Back to Work Barometer is a sobering data point, as it shows that in the U.S.'s 10 largest metro areas, office occupancy remains at only about 40 percent of pre-pandemic levels. This has resulted in several challenges for cities, including significant shifts in where service-sector workers (such as those at restaurants and dry cleaners) are now employed, as some small businesses in CBDs have shrunk or closed; high vacancy rates with possibly declining asset values; and even public safety concerns.

The result is the advancing of several trends that began before the pandemic, including:

- Developing more mixed-use buildings with considerable apartment and retail space;
- Creating social and cultural districts that focus on theaters, the arts, culture, and educational facilities;
- Courting life science-type companies to occupy buildings, as biotech and other firms with laboratories are not as conducive to work from home staff;
- Rethinking significant investments in public rail that may be used for improvements in bus and other transit services that are not as "fixed," allowing for more flexibility for changing commuter patterns; and
- Evaluating existing vacant office buildings to ascertain whether they could be retrofitted for use as residential property.

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