Intelligent Investment

Build-to-Rent (BTR) Overview

REPORT FIGURES

Evolving renter preferences creates emerging opportunities

CBRE RESEARCH
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Contents

Executive Summary

This report provides an overview of the U.S. residential Build-to-Rent (BTR) sector and answer questions such as:

- **What is BTR?**
- **What does a BTR property look like?**
- **Who owns BTR assets? How do BTR assets perform?**
- **How do BTR properties compare to multifamily properties?**

BTR developments are new residential communities, increasing U.S. housing supply and helping to address the nation's housing shortage. BTR communities have the characteristics of single-family homes, built for renters desiring features not typically offered with multifamily properties.

Most BTR properties consist of 50 or more homes or townhomes and operate similarly to multifamily assets. A defining characteristic of BTR is that nobody lives above or below residents. BTR properties are owned by investors and professionally managed, often with community amenities and an on-site leasing office.

As a subsector of Single-Family Rentals (SFR), BTR occupies a unique space within the U.S. residential rental market. The broader category of SFR also includes scattered homes for rent, which are often owned by individual investors.

Millennials are reaching prime age for major life milestones like childbearing and homeownership. Many are paying off large college education loans and cannot yet afford homeownership. BTR is an appealing alternative for them. Empty nesters desiring the financial flexibility and lifestyle ease of renting versus owning are another major source of BTR demand. Millennials and empty nesters are driving strong demand for larger rental units to accommodate families and lifestyle preferences.

Favorable BTR fundamentals are capturing significant attention from institutional investors. Most of the institutional investor interest is relatively new because the BTR sector only began scaling in most markets over the last five years.

01

Introduction to Build-to-Rent (BTR)

Definition, Characteristics and Demand Drivers

Broad Characteristics of BTR

Institutional Property Management

High-quality for-rent single-family homes or townhomes owned by a single entity and professionally managed. Operators handle leasing, landscaping, repairs and maintenance for the entire community.

Product Features

BTR homes offer privacy without other residents living above or below. Building products are generally durable and low maintenance, such as high-quality faux wood floors and hard-surface counter tops. Unit sizes are a significant differentiator compared to traditional multifamily and most units include dedicated outdoor space. First floor ceilings are typically nine feet high with windows potentially on all walls, given the properties are detached. In contrast, apartment ceilings are often eight feet high with windows on only one wall, due to double-loaded corridors.

Transit-Oriented

Easy access to major transit arteries and public transportation are critical features of competitive BTR communities.

Neighborhood Feel

Neighborhood feel can be characterized by low density homes with yards and additional greenspaces like parks. Neighborhood feel is an attractive aspect of BTRs, especially given the prevalence of young family and empty nester renter profiles.

Community Amenities

While many BTR properties offer some community amenities like walking trails, green spaces and dog parks, some also offer more significant amenities like swimming pools, clubhouses and gate access.

Detailed Characteristics of BTR

Style

- Detached or attached single-family homes
- Attached designs are included when they have single-family like characteristics (e.g. front entry from street, garage, driveway, front/back yard, limited shared walls with other homes, and no one living above or below)

Outdoor Space

- Front yard, backyard and/or patio
- Yards and patios can range from very small to expansive. Many communities also provide additional outdoor spaces such as walking trails and dog parks.

Parking

- Parking garage attached to home with driveway from street
- Some attached products exclude attached parking

Density

- Typically 6-12 units per acre
- BTR is generally lower-density than traditional multifamily, but varies greatly by developer style, attached versus detached and location

Location

- Typically less dense suburban or exurban locations within one hour commute of urban centers
- Some BTR communities are located in infill locations and/or within a master-planned community

Potential Community Amenities

- Pool, community center, fitness center; sometimes playgrounds, walking trails
- Some communities have no amenities
- Rental housing residents may have access to shared amenities if part of a master-planned community (MPC) that also has for-sale housing

Management & Leasing

- Professionally managed
- Onsite leasing office
- Some smaller properties do not have onsite leasing; companies with multifamily experience are common

Year Built

- The BTR sector is relatively new, with one quarter of BTR properties built in the last three years

Bedrooms

- Horizontal BTR homes are typically smaller, with 1 to 3 bedrooms
- Single-family detached and townhome properties typically feature 2 to 4 bedrooms

Square Footage

- Horizontal BTR properties have an average square footage of 1,160 sq. ft .[(1)] based on unit mixes and floor plans, similar to traditional MF
- Single-family detached and townhome BTR properties range between 1,500 - 2,000 sq. ft.

Lawn/Landscaping

- Handled by management and usually with some charge-back to the resident
- Differs from Scattered SFR where most renters are responsible for landscaping maintenance

Parcel

- Homes may be individually platted or all on a common plat
- Communities with individually platted homes often provide renters with a unique address

[1] Source: CBRE Research, Yardi Matrix, Q1 2023.

BTR Sub-Categories

Image credit: NexMetro.

Image credit: Resibuilt.

Image credit: Trickum Hill, Haven Realty Capital.

Horizontal Multifamily

Horizontal multifamily communities are similar to traditional vertical multifamily properties in terms of unit sizes, unit types and amenities, but don't stack units.

BTR Single-Family Detached (SFD)

BTR single-family detached are typically the largest homes of the three sub-categories, often containing three or more bedrooms.

BTR Single-Family Attached (SFA) (Duplex / Townhome)

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

FIGURE 1

BTR Product Groupings

Product Type	Product Description	Typical Home Size Range		Typical Density
		Smaller	Larger	
Horizontal Multifamily	Small single-family detached and attached homes	650 SF 1 Bed/1 Bath	1,400 SF 3 Bed/2 Bath	12 dwelling units/acre
Two-story Townhomes	Homes in 2-7 unit building configurations	1,300 SF 2 Bed/2 Bath	1,750 SF 4 Bed/2.5 Bath	10 dwelling units/acre
Cottages	Detached or attached single-family homes on smaller lots	1,300 SF 2 Bed/2 Bath	1,750 SF 4 Bed/2.5 Bath	10 dwelling units/acre
Traditional Single-Family	Detached homes on traditional lots	1,400 SF 3 Bed/2 Bath	2,000 SF 4 Bed/3 Bath	8 dwelling units/acre
Luxury Single-Family	Detached and attached homes on individual lots	2,000 SF 3 Bed/2 Bath	2,800 SF 4 Bed/3.5 Bath	6 dwelling units/acre

Source: John Burns Research and Consulting, Q1 2022.

FIGURE 2

BTR vs. Scattered SFR

Understanding the difference between BTR and Scattered SFR is important, given institutional investors' focus on a variety of residential investment opportunities.

BTR differs from Scattered SFR in design, amenities, management, location and typical vintage.

	Build-to-Rent (BTR)	Scattered Site-Single-Family Rental (SFR)
Design	Purpose-built rental communities with a mix of attached and detached single-family homes	Mix of disparate renovated and unrenovated single-family homes, often sold in portfolios
Amenities	High-quality community amenities	Limited amenities, if any
Management	Institutional property management	Mainly mom & pop property management outside of major institutional portfolios
Location	Predominantly transit-oriented locations in close-in suburbs and exurbs of major metros, as well as desirable tertiary markets	Highly variable mix of urban, suburban and exurban locations
Agency Financeable?	Generally able to finance with government agencies	No

BTR Demand Drivers

RENTER Demand Drivers

- Favorable Millennial Demographics/ Renters-by-Choice
- Rising For-Sale Housing Costs/ High Cost of Homeownership
- Increasing Need for Financial Flexibility
- Remote Work – And the Need for More Space
- Population Migration Patterns/ Appeal of Less Dense Neighborhoods
- Access to Outdoor Space/Amenities

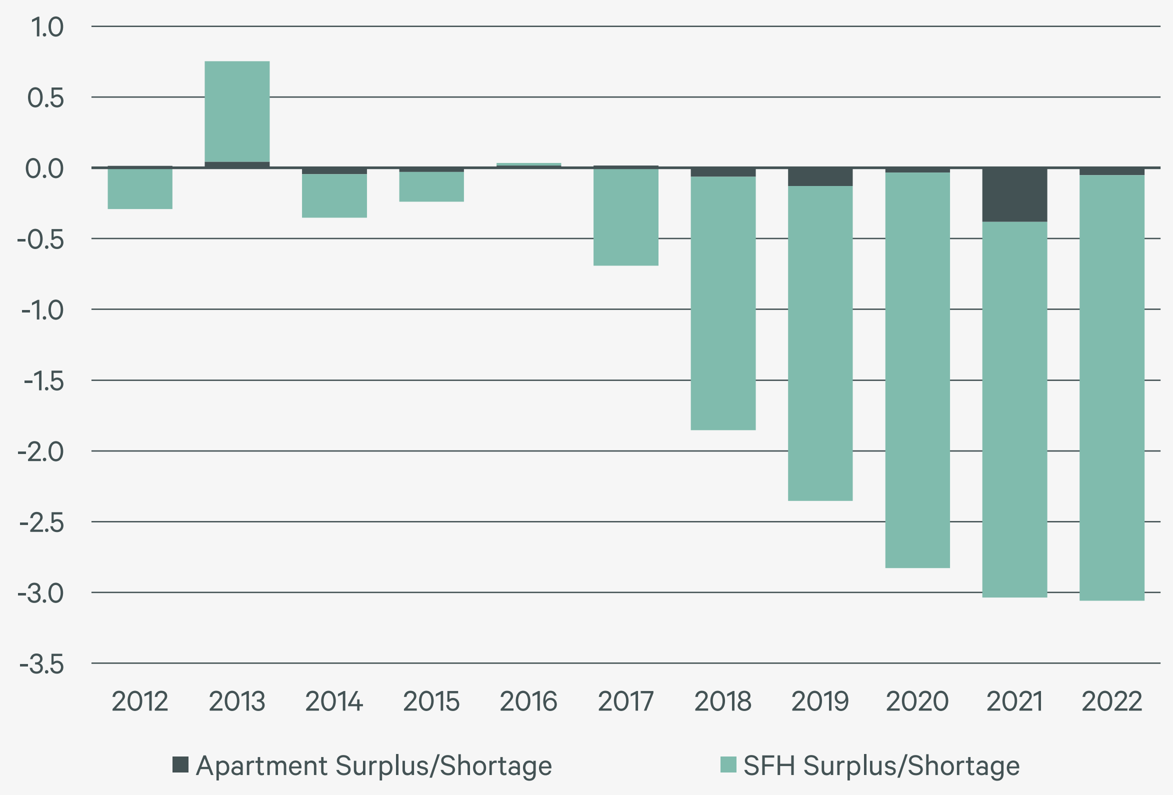
INVESTOR Demand Drivers

- Outsized Rent Growth & Low Vacancy Rates
- Strong Net Absorption & Lower Resident Turnover
- Diverse Set of Consumers
- Product Diversification (Multi-Asset Investors)
- Exit Optionality
- Relatively Low Institutional Exposure To Date

FIGURE 3

U.S. Housing Surplus/ Shortage (millions of units)

The U.S. has an estimated shortage of 3.1 million housing units. Multifamily vacancy is nearly at its long-run average, suggesting the shortage is almost all single-family properties.

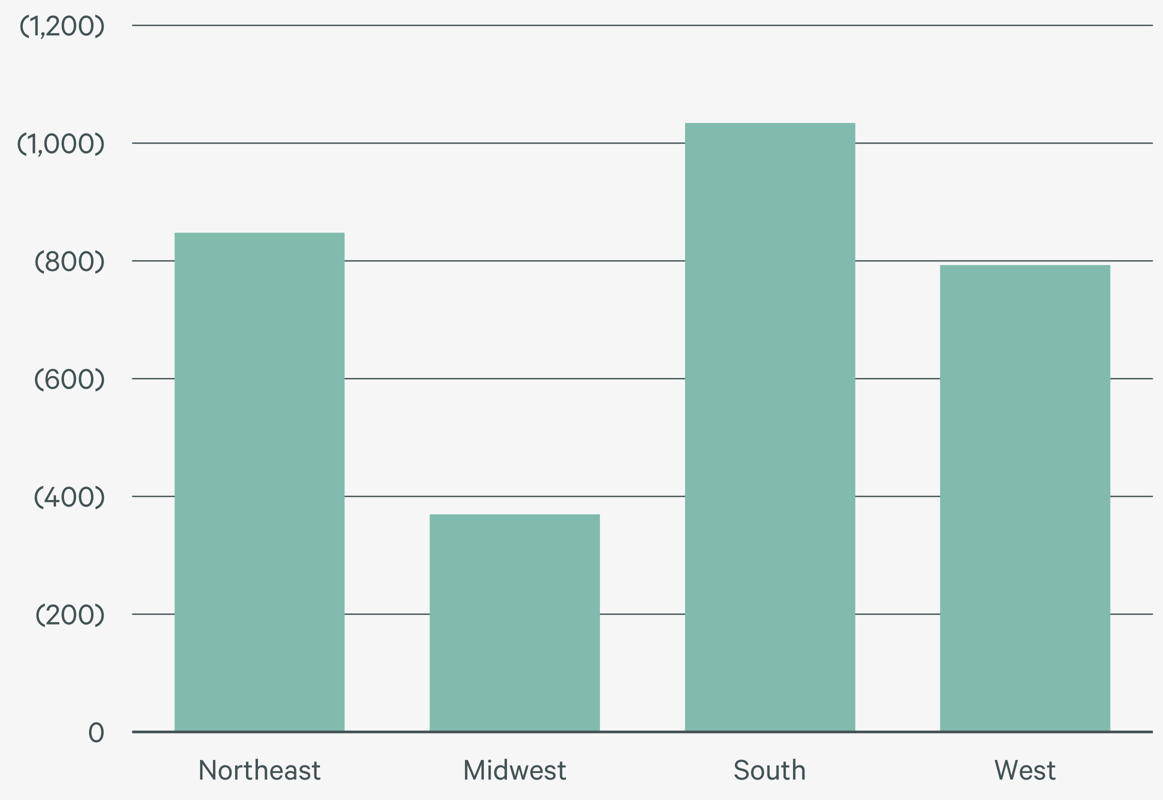


Source: CBRE Research, CBRE Econometric Advisors, Census Bureau, January 2023.

FIGURE 4

Share of Housing Shortage in Units (in thousands)

The shortage is most dramatic in the South, but the West and Northeast closely follow.



Source: CBRE Research, CBRE Econometric Advisors, Census Bureau, January 2023.

FIGURE 5

Average Monthly Mortgage Payment vs. Monthly Rent

The gap between the monthly payment for a newly purchased home versus rent peaked in Q3 2022 at 47%. It has since declined but remains elevated at 37%.

In addition, a homeowner must bear the cost of home insurance, landscaping, repairs and maintenance, widening the cost differential with renting. The cost gap will continue driving renter demand and keep occupancy rates higher for longer.

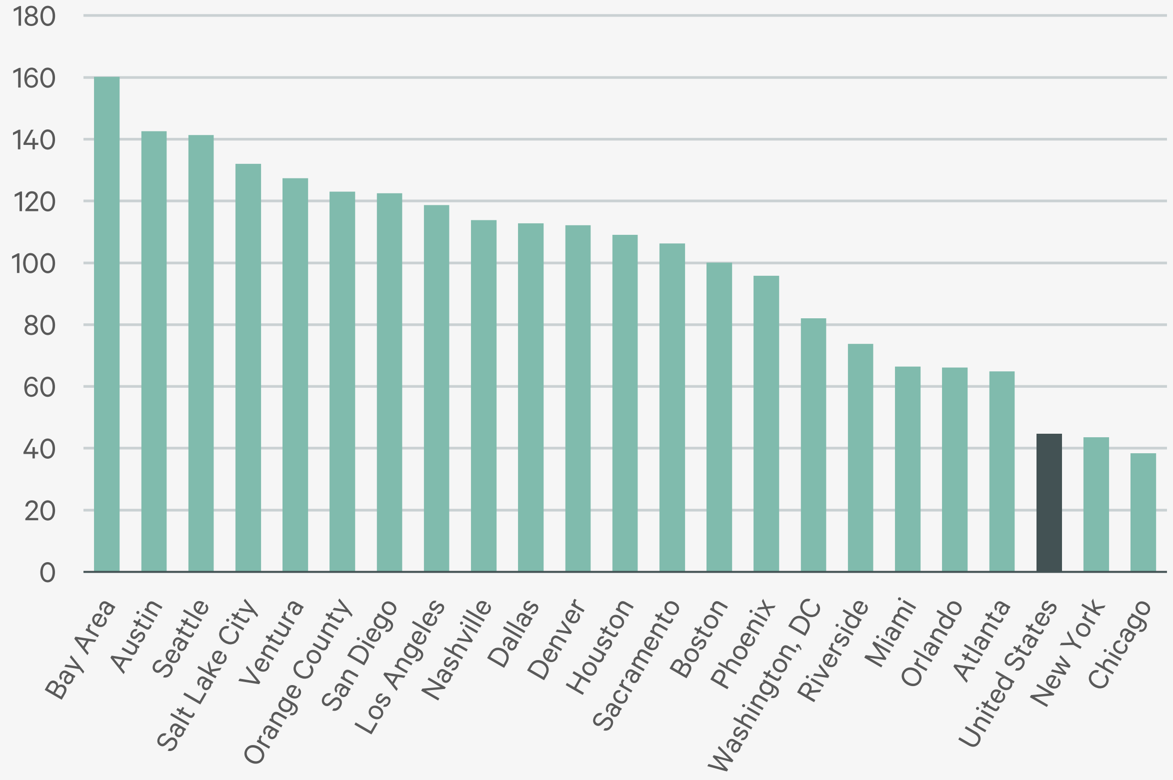
Note: Mortgage payment includes an assumed 10% down payment and associated Principal Mortgage Insurance (PMI), prevailing interest rates and property taxes.

Source: CBRE Research, CBRE Econometric Advisors, Realtor.com, Freddie Mac, December 2022.

FIGURE 6

Monthly Payment Premium of Owning Over Renting (%)

Owning a home—especially in the West—is a challenge because of dramatic home price appreciation and rapid rise in mortgage rates.



Source: CBRE Research, CBRE Econometric Advisors, Realtor.com, U.S. Census, December 2022.

02

BTR Market Overview

Current Landscape, Active Markets and Go-Forward Opportunity

FIGURE 7

Current BTR Market Overview

The newness of the BTR asset class offers substantial opportunity for investors who appreciate BTR's market dynamics:

- Rising market demand from shifts in housing preferences
- BTR helps satisfy unmet demand for single-family living by increasing housing supply
- Favorable market fundamentals, leading to superior revenue growth
- Lower resident turnover than traditional multifamily
- Attractive alternative to renters of Scattered SFR, who are often 35+ years old

6.6%
2022 Rent Growth

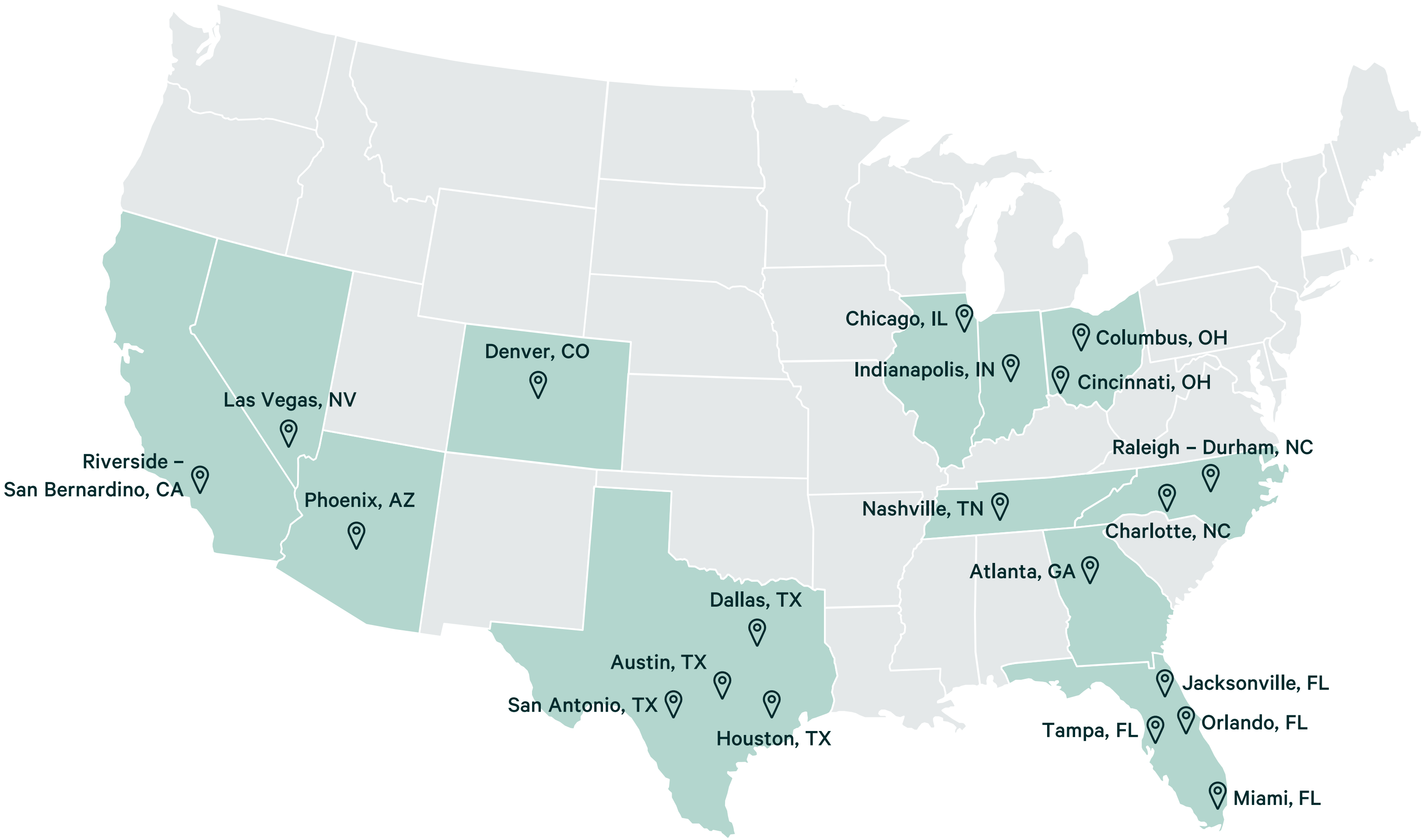
4.8%
Vacancy

Source: CBRE Research, Yardi Matrix, Q4 2022

FIGURE 8

Most Active SFR Markets

- The highest proportions of SFR homes are generally in the Midwest. For example, the percentage of all rental units that are SFR homes in St. Louis, Pittsburgh and Kansas City is 60%, 59% and 55%, respectively.
- The number of SFR homes increased in all top-20 SFR markets in 2022, but the growth rate has been significantly uneven by market, even within the same region.
- SFR homes make up only 30% to 35% of rental housing stock in denser markets with land constraints and tighter development yields, such as in New York and Washington, D.C.
- Significant new investment is projected in Texas, given its deep, growing housing market.
- This trend would align Texas's SFR penetration with other Sun Belt markets such as Phoenix, where SFRs are closer to 40-50% of overall rental stock.



Source: CBRE Research, U.S. Census Bureau, 2022.

SFR vs. Multifamily Market Sizes (in millions)

There were approximately 20 million SFRs in the U.S. in 2021, including 2- to 4-unit properties (primarily townhouses). Similarly, there were also 20 million 5+-unit multifamily properties. The SFR total excludes vacant properties. Almost all detached SFRs were transitioned to rentals but built as for-sale homes.

FIGURE 9

	Single Family		Multifamily		Other	Total
Units per building	1	2-4	5-9	10+		
Owner-occupied	74.2	1.7	0.6	2.2	4.8	**83.5**
Renter-occupied	12.8	7.5	4.9	15.1	1.5	**41.8**
Total	**87.0**	**9.2**	**5.5**	**17.3**	**6.3**	**125.3**

Source: CBRE Research, US Bureau of the Census American Community Survey (1 year), 2021.

FIGURE 10

3.5M

Single-family homes have become rental properties since 2005

Source: John Burns Research and Consulting.

3-4%

Of the SFR market is institutionally owned

Source: CBRE Research, Yardi Matrix, Q4 2022.

340K

"BTR" units (1.7% of the total SFR market)

Source: NRHC.

7%

Of single-family construction is BTR construction

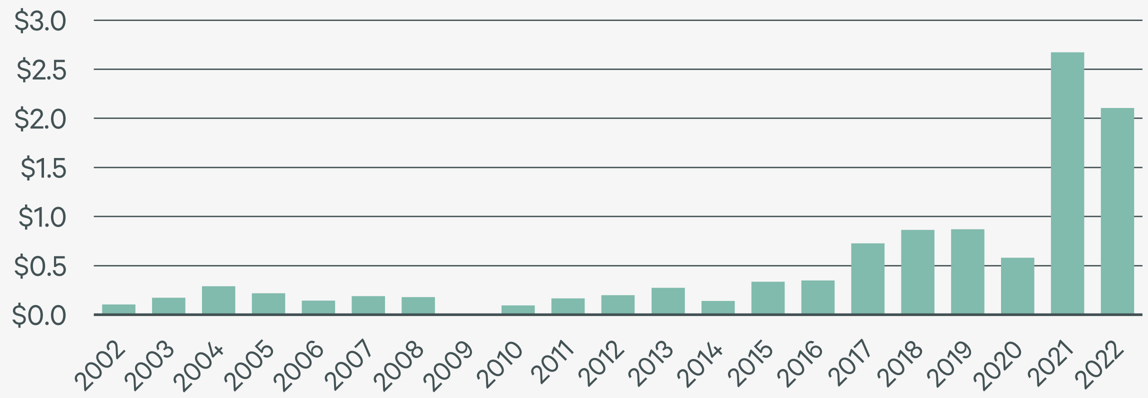
Source: John Burns Research and Consulting.

Annual Sales of BTR Communities

BTR investment is accelerating, while still modest compared with more mature commercial real estate sectors. Growing investor appetite is leading to further investment and construction in this sector. Total BTR transaction volume averaged just $2.4 billion in 2021 and 2022, though this was a 250% increase over the preceding five year average.

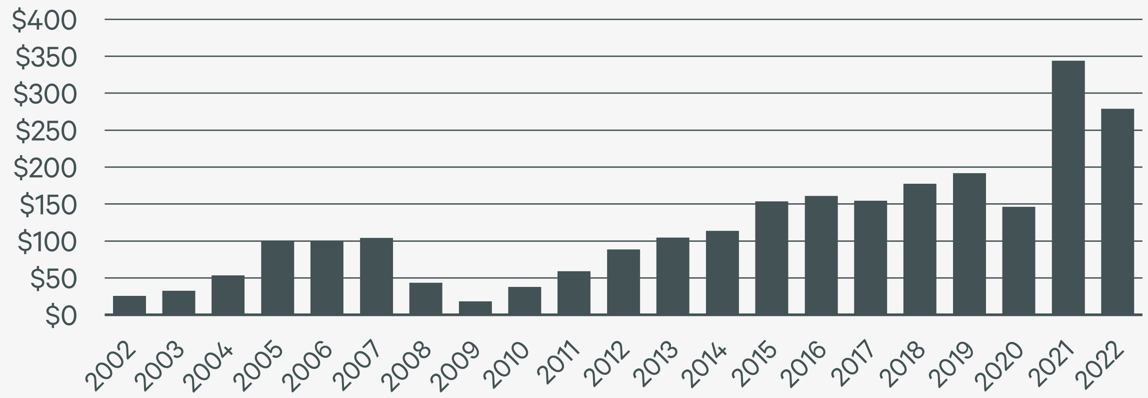
In contrast, the traditional multifamily sector recorded a $311.3 billion average total investment volume over that same period. As investors refocus their capital allocations to favor the multifamily and industrial sectors, we expect BTR investment to grow significantly.

FIGURE 11a: Annual Sales of BTR Communities (billions)



Source: CBRE Research, Yardi Matrix, Q4 2022.

FIGURE 11b: Annual Sales of Apartments (billions)

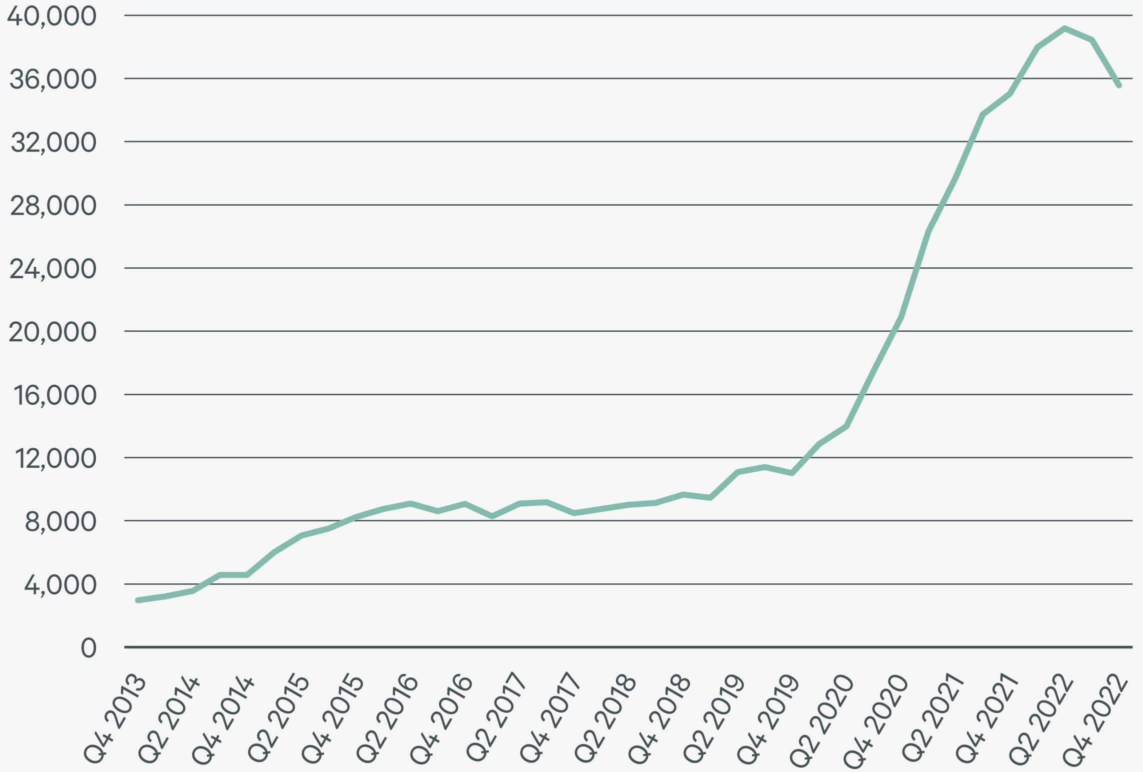


Source: CBRE Research, MSCI Real Assets, Q4 2022.

FIGURE 12

BTR Communities Under Construction (units)

The total U.S. BTR inventory remains small compared to other types of housing, with an estimated 340,000 units nationwide. BTR development has accelerated in recent years, however. Peaking at almost 40,000 units in early 2022, it has since stabilized. Higher borrowing costs and tighter lending conditions are causing a slowdown in new BTR starts.

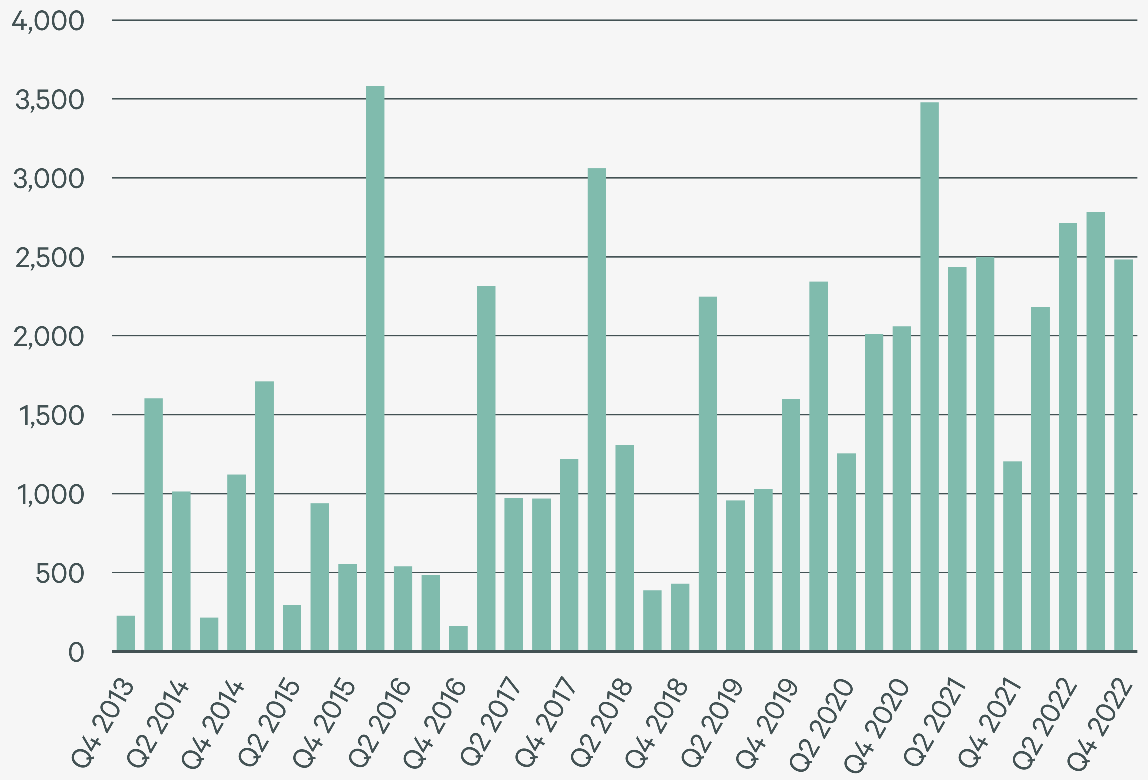


Source: CBRE Research, Yardi Matrix, Q4 2022.

FIGURE 13

Quarterly BTR Net Absorption (units)

Once-strong BTR net absorption has moderated as availability tightened and new construction deliveries slowed.

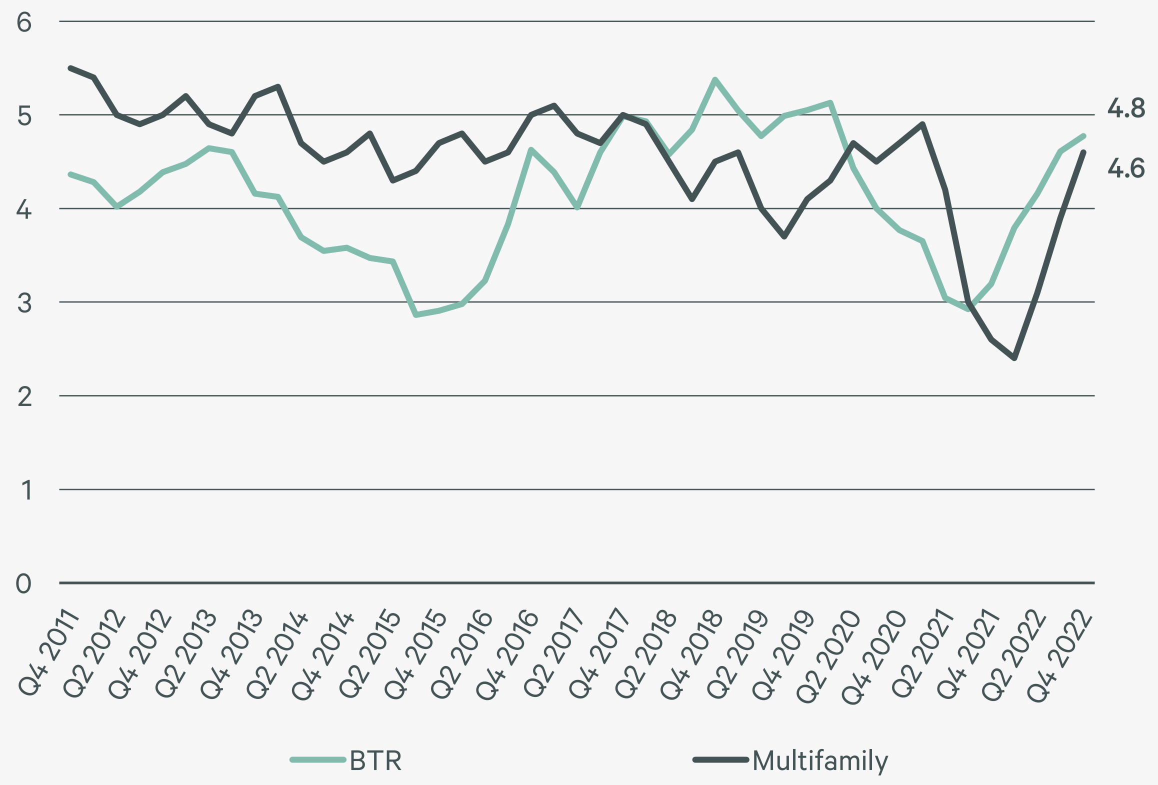


Source: CBRE Research, Yardi Matrix, Q4 2022.

FIGURE 14

Historical Vacancy for BTR Communities (%)

Although BTR vacancy has increased in step with the overall multifamily market, it remains below 5%. This still tight market provides BTR owners with pricing power.

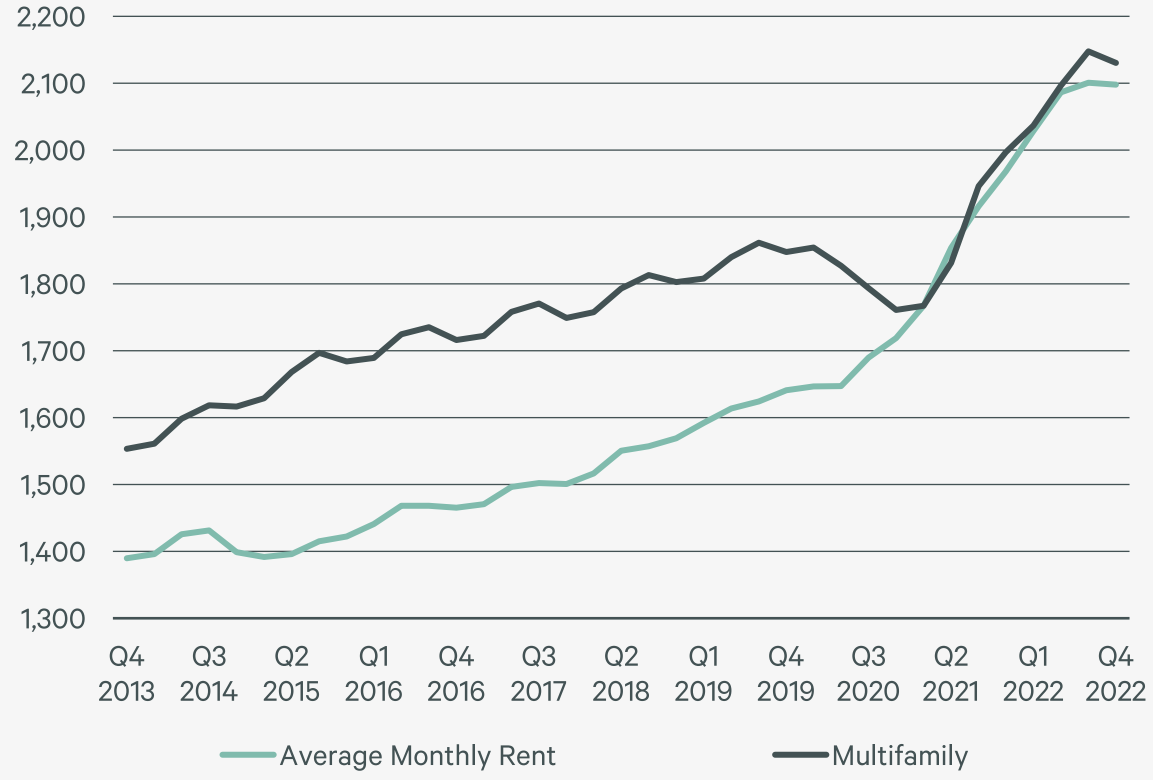


Source: CBRE Research, Yardi Matrix, Q4 2022.

FIGURE 15

Average BTR Rent vs. Multifamily ($)

BTR rents reached an average of over $2,100 per unit in Q4. BTR rents did not experience the same negative impact during the pandemic because, like suburban multifamily, BTR communities benefited from out-migration from high-density urban cores. The larger and less expensive units available in suburban and secondary markets benefited from this strong demand shift.



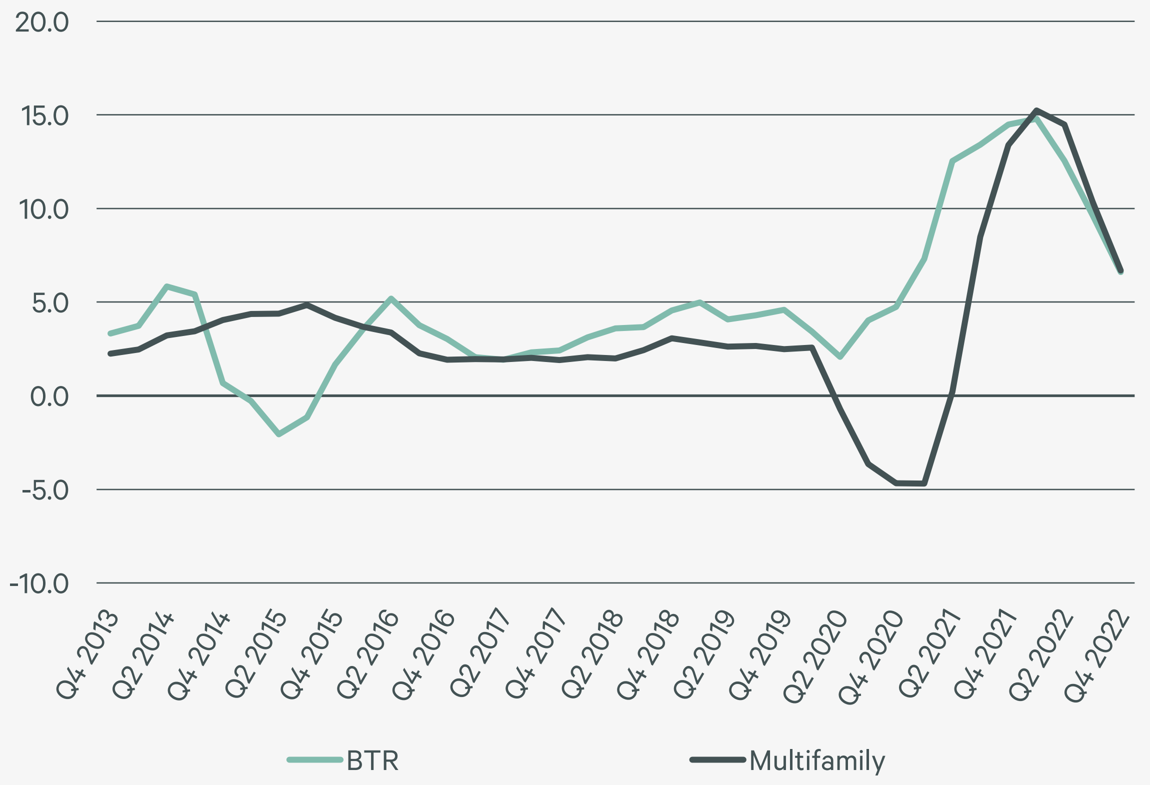
Source: CBRE Research, Yardi Matrix, Q4 2022.

Note: these national averages do not account for the geographic composition of each sector. Rents for traditional multifamily are heavily weighted by large high-density and expensive coastal markets.

FIGURE 16

BTR Rent Growth vs. Multifamily (year-over-year %)

Supply and demand imbalances continue driving strong housing market performance. The BTR sector's average rent growth has decelerated, aligned with multifamily sector performance. But at nearly 7%, BTR rent growth remains well above pre-pandemic levels. BTR did not see average rent decline through the pandemic.

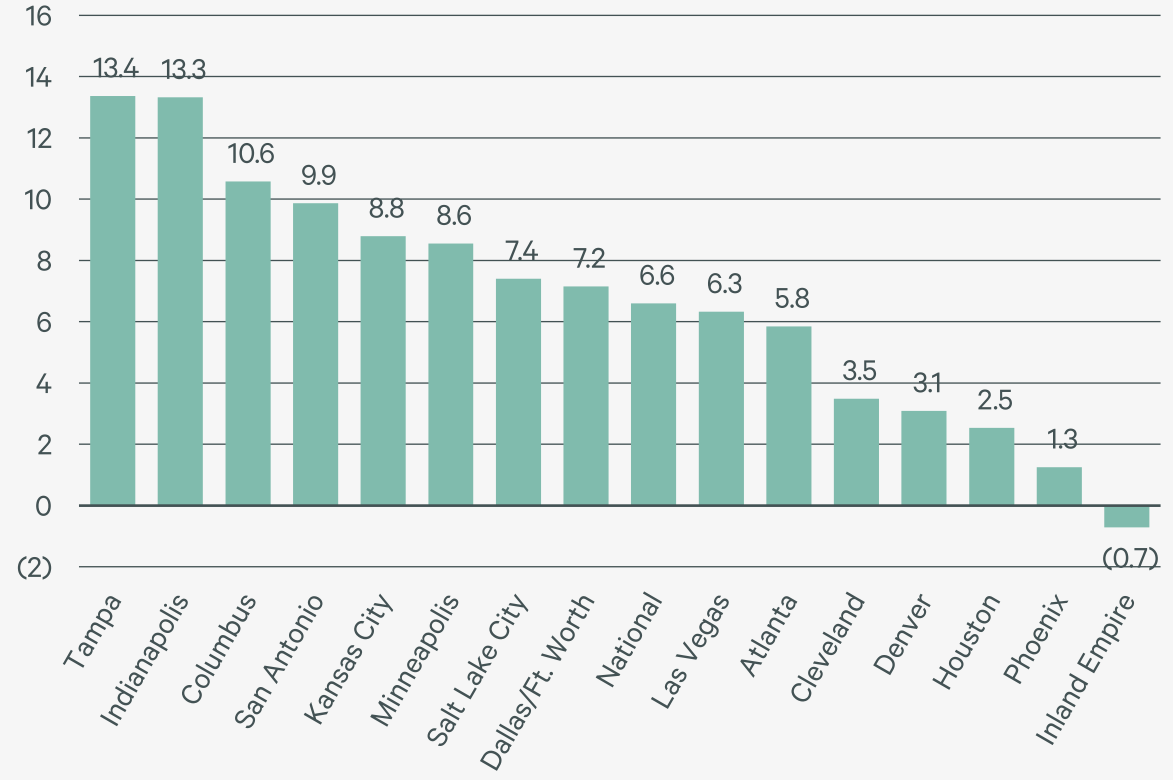


Source: CBRE Research, Yardi Matrix, Q4 2022.

FIGURE 17

Largest BTR Markets' Year-Over-Year Rent Growth (%)

A geographically diverse range of markets such as Tampa and Indianapolis pulled up the national average to 6.6% in 2022, offsetting lower performance in other major markets.



Source: CBRE Research, Yardi Matrix, Q4 2022.

03

Investing in BTR

Institutional Activity and Major Joint Ventures

Four Principal Ways to Invest in BTR

Create BTR development firm or subsidiary	Partner with BTR developers and home builders	Acquire completed BTR communities at completion on Pre-Sale basis	Provide construction, mezz/bridge or permanent financing

FIGURE 18

SFR Market

The vast majority of the 20 million SFR homes in the U.S. are owned by mom-and-pop investors. Institutional investors have started entering this space, but account for only 3-4% of SFR ownership. While some investors focus on Scattered SFR, many prefer the more natural strategy of entering the SFR market via BTR communities.

SFR REITs

Performance of SFR REITs has helped drive institutional participation across the space. SFR REITS are one of the best-performing property sectors since emerging in the early-2010s, outperforming the REIT index for 2019-2021.

Top 5 institutional SFR owner-managers by number of properties:

Rank	Owner-manager	Type	No. of properties
1	Invitation Homes	REIT	82,000+
2	Progress Residential/Pretium Partners	Private Equity	75,000+
3	American Homes 4 Rent	REIT	57,000+
4	Cerberus/First Key	Private Equity	44,000+
5	Amherst	Private Equity	35,000+

Institutional Investors Emerge in BTR

A small number of well-capitalized private equity investors began assembling large scattered SFR portfolios during the Global Financial Crisis. Inherent operational inefficiencies of scattered assets is a challenge with these portfolios. However, consumer demand for SFR was evident and led to outsized investment performance. The growth of BTR assets over the last five years has contributed to broader institutional investor interest in SFR.

BTR's ability to offer a differentiated product with similar operating features as traditional multifamily makes BTR a logical addition to institutional investor portfolios. Attractive rental growth coupled with the more efficient operating capabilities have led to strong institutional investors' conviction in BTR. Additionally, BTR has the exit optionality of continuing to operate as a rental community or selling to individual home buyers.

CBRE expects the breadth and depth of domestic and global institutional capital to accelerate in coming years. Like multifamily, other investor profiles are major stakeholders in the BTR sector as well.

Image credit: Christopher Todd Communities.

Go-Forward Market Opportunity

BTR is in the early stage of growth as a sector and the opportunities are vast.

Multiple factors create compelling fundamentals for driving rent growth:

1. A national housing shortage
2. Surge of millennials creating families and outgrowing traditional apartments
3. Baby boomers downsizing, with some choosing the flexibility and low-maintenance lifestyle of renting
4. Increased housing demand in suburbs and exurbs accelerated by COVID remote work trends
5. Limited BTR supply, exacerbated by a constrained construction lending environment and entitlement challenges in many locations

Opportunities

LP Equity: Equity investments for new development are highly demanded by builders and developers, enabling limited partners (LP) to negotiate competitive terms. Both the equity providers and developers often seek strategic relationships for ongoing partnerships, not just to capitalize one deal. Similarly, LP equity providers will find compelling opportunities for recapitalizing assets and portfolios at stabilization or with forward take-outs.

Construction Financing: Lenders are currently more selective in funding new development due to banking sector pressures and fewer loan pay-offs than expected. Current constrained lending conditions are favorable for lenders seeking deals and long-term borrower relationships with BTR developers.

Acquisitions: Investors will see more stabilized property deal flow as more inventory is delivered and if interest rates moderate as expected. At present, investors should consider focusing on stabilized offerings, since deal flow will likely be modest over the next 12-24 months.

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