Analysis

5 Major Build-to-Rent Trends

Here are some developing themes in the evolving BTR market.

By Erik Sherman | March 04, 2022 at 07:42 AM

Build-to-rent has become an attractive option for investors and developers, **outperforming multifamily** over the last five years and becoming **more important to institutional investors**. That makes sense, given the ongoing shortfall in building homes and high prices pushing people who might otherwise buy and who still want more amenities into rental markets. BTR offers an alternative to locating and obtaining single-family houses in a tight market.

CoreVest American Finance Lender, in a larger document on BTR investment, listed five developing trends in the space that investors should consider. That changes are happening shouldn't be a surprise, as last year the mix of supply chain and labor issues as well as uncertainty around a return to the office showed that **BTR strategy needed more consideration** going forward.

The first of CoreVest's points is obvious on the surface: land costs continue to rise. This is true not only in gateway metro areas but in the sun belt where even large players **find land acquisition to be competitive**. "It's becoming extremely difficult to find affordable lots as new players continue to enter the market," the report notes. "The resulting increase in competition for land is pushing developers into new markets that were previously not considered."

Next is "bigger is better." As true in individual home development, larger houses provide better potential for profit. According to the report, there's "substantial" demand for houses with four to five bedrooms, each of which brings a $150 to $200 per month premium.

There's already cap compression happening and that will only continue as additional BTR and single-family rental funds launch. Investors are betting that rents can continue to increase in the future. An outside counterpoint is the difficulty of preserving affordable housing, putting strain on the entire industry, and raising the question of how many people will be able to afford ongoing increases.

Fourth, consider mixing the types of construction. "For instance, borrowers would discuss a mixture of townhomes and SFRs, or even garden style apartments and townhomes being built in one community," CoreVest says. "Some would consider selling one asset class upon completion, others would look to hold all development." Perhaps other types of building, like targeted retail and recreational, might also fill out community needs and make a development more desirable.

Finally, there's a move by many developers to overlook leverage and focus more on rent growth rates. "There seems to be a lot of money in the market, with many developers having moved a decent amount of their capital from stocks and other holdings into real estate," says the report. "So, to these developers, it's about the total return and not the rate of return since the leverage amount has a greater impact on the rate of return than the coupon."