THE NEW HOTBED FOR BUILD-TO-RENT COMMUNITIES? PHOENIX

Other Western cities are also seeing a surge in development and investment activity.

By Trevor Koskovich

The buzz around the build-to-rent (BTR) sector continues, making it one of the hottest asset classes in the U.S. rental housing market.

Demand for these properties, defined as "purpose-built, single-family rentals," has been particularly insatiable in Phoenix and across the Western United States, and there are no signs of a slowdown as demand continues to outpace supply. Thousands of new units are being built.

Renters are attracted to the BTR lifestyle as it offers the advantages of a single-family home without the responsibilities of owning a house. It also provides the convenience of low-maintenance apartment living but with more space and privacy.

These detached units also come with backyards, as well as communal amenities like pools, dog parks, party spaces and fitness centers. Single-family renters are generally "stickier" than typical apartment renters because they view the home as a longer-term commitment, resulting in higher renewal rates than apartments.

Danbury Residences is a 17-unit boutique BTR community in Phoenix tat sold for $7.3 million, or $429,412 per door. This newly built community had been fully leased since it opened in September 2020.

Who are These Renters?

This hot sector is pulling from two large renter pools. You have Millennials who are moving to the suburbs looking for more space, but still opt to rent, and downsizing Empty Nesters who want the ease of the lock-and-leave lifestyle and more space than an apartment typically affords. Both groups crave modern amenities.

The trend toward BTR has only accelerated due to the COVID-19 pandemic as people seek bigger spaces and many work from home. These renters also don't have to worry about common spaces like elevators and hallways. The move away from dense urban cores and toward more suburban markets has also naturally attracted renters to these single-family rentals as the suburbs is where those communities were built to begin with.

Phoenix Inventory Expected to Double

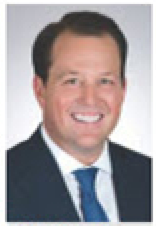
Phoenix has been the epicenter for new build-to-rent developments. The Sun Belt city was the first major market where these communities began to quickly sprout up. The surge started in 2015, and many of the biggest build-to-rent operators have been delivering new projects.

Phoenix has significant available land for these large, "horizontal" developments, and demand is driven by robust net migration. The metro has been a major destination for people moving from California. Activity is also fueled by the lack of housing supply and the massive demand from would-be homebuyers struggling to purchase a home at today's high price points.

To date, 39 build-to-rent communities totaling 5,645 units have been completed in the Phoenix metro area. Another 34 projects totaling 5,436 units are under construction, which will effectively double the current inventory. There are another 5,000 units planned.

Although the build-to-rent sector is booming in Phoenix, it is still in its infancy. The current inventory of stabilized, build-to-rent properties, as well as those in the pipeline, will still total less than 5 percent of the city's multifamily housing stock by the end of 2022.

Developers building these communities are not abandoning other types of multifamily development but using BTR as another tool in their arsenal. Some large homebuilders are also carving out small portions of their master plans for build-to-rent developments. That's because the build-to-rent homes generate cash flow as homebuilders continue to construct for-sale homes.



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Phoenix isn't the only city seeing robust build-to-rent activity. Tucson and other Arizona cities are as well. Then there's Las Vegas, which is a hot market with its strong in-migration trends and available land. Other high-growth cities like Salt Lake City and Boise also boast strong demographics that are attracting build-to-rent developers and investors. As new projects deliver, investment sales activity should accelerate.

Capital is Pouring in

Not only is BTR popular among renters, it has created a new institutional investment asset class for investors. Institutional investors, pension funds, family offices and others are investing billions of dollars in build-to-rent product. We know five institutional groups raising billion-dollar funds solely targeting these projects.

Rather than purchasing small portfolios of traditional single-family rentals — which may be scattered across submarkets or regions — institutional groups can acquire hundreds of build-to-rent units that are professionally managed by the same multifamily management operator. This allows the owner to operate the units in a more cost-effective manner.

Since 2018, NorthMarq has tracked 22 single-family, build-to-rent transactions in Phoenix totaling $925 million.

Capital for build-to-rent communities is more readily available as lenders recognize the impressive yields from this investment class. Fannie Mae and Freddie Mac have become more active in lending in the build-to-rent space. Life companies are more aggressively pursuing this product for their portfolios, both on the lending and ownership sides. For construction, all major banks and debt funds are active in this space.

Build-to-rent properties have proven profitable for investors and developers, and they're popular with today's renters. The sector will only continue to accelerate as it fills a void in the rental housing market. NorthMarq has already completed more than $500 million in single-family home rental transactions across the United States.

NorthMarq sold CTC Mountain View, a 217-unit Christopher Todd Communities BTR property in Surprise, Ariz., for $64.2 million in March. This was the sixth CTC BTR property sold by NorthMarq.

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