

Build to Rent

State of the Market

Today's Talk

1. Summary of Zonda Class
2. Where does BTR fit with NTBA and New Urbanism?
3. Discussion

Definitions

Building to Rent is not new (apartments)

Building hamlets is not new (cottage courts, townhomes, TNDs)

Building hamlets to rent IS new (BTRs)



Built To Rent Development: Two Distinct Product Options

Platted Lot Subdivisions



- ❖ Typically 8-10 DU/Acre
- ❖ single-family homes
- ❖ 3-4 bedrooms, one/two-stories, garages
- ❖ Private yards
- ❖ Can be sold individually

Horizontal Apartments



- ❖ Typically 12-14+ DU/Acre
- ❖ 150-250 units
- ❖ Primarily detached units (some duplexes)
- ❖ 1-3 bedrooms, smaller yards, surface parking
- ❖ Single legal lot (cannot sell units individually)

Learnings

1. 100-300 units
2. 15-50 acres
3. Seek donut hole
4. Demand for Missing Middle is Rising. New supply is non-existent.

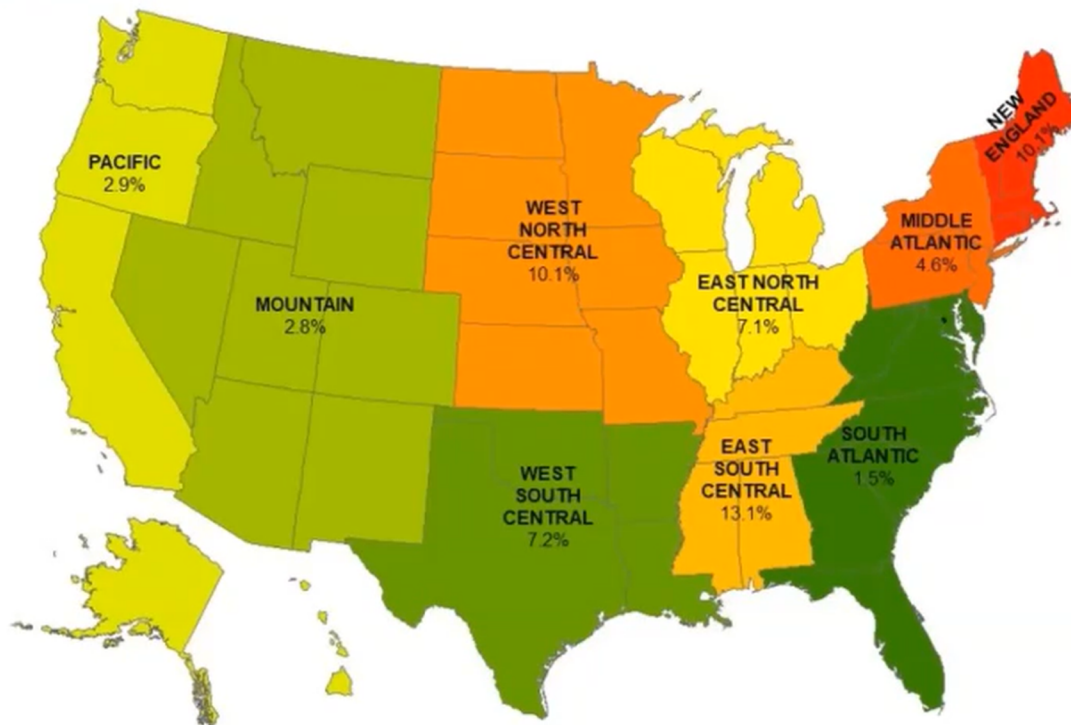
Why BTR?

- i. “Try and Buy”
- ii. Lifestyle drivers - social opportunities, access to the hub
- iii. **Attracts couples, not singles. 62% female households, 60% have pets.**
- iv. 900-1500sf 10/acre

Single-Family Built-for-Rent: Percentage of Local Starts



Robert Dietz



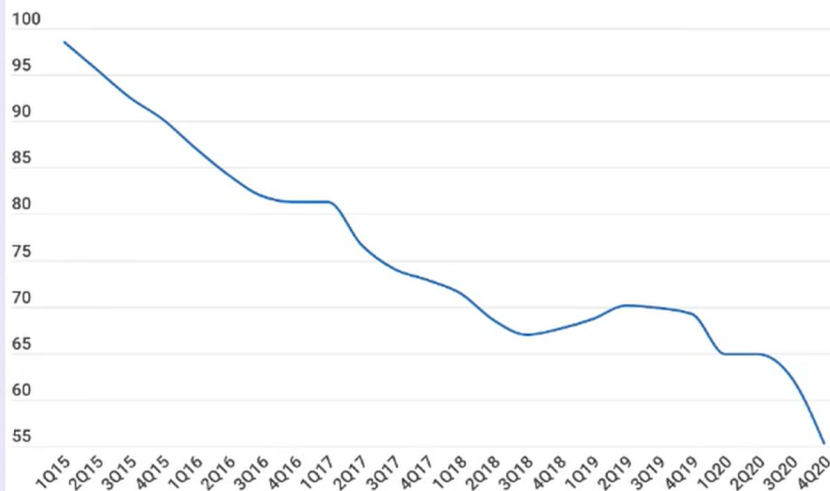
Source: NAHB analysis of U.S. Census Bureau (BOC) data

<https://eyeonhousing.org/2019/08/contrasting-built-for-rent-and-for-sale-new-single-family-homes/>



New low for finished lots

New Home Lot Supply Index



Source: Zonda; Data as of 4Q20

New Home Lot Supply Index By Market

Significantly Undersupplied Markets

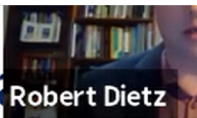
Market	Index Value (YTD)
Atlanta	68.8 (-28%)
Sacramento	63.8 (1%)
Dallas	63.5 (-23%)
Denver	62.9 (-16%)
Minneapolis	62.8 (-24%)
San Antonio	60.8 (-5%)
Phoenix	57.9 (-11%)
Austin	57.1 (-17%)
United States	55.1 (-20%)
Riverside/San Bernardino	53.5 (-32%)
Houston	52.5 (-23%)
Jacksonville	52.3 (-12%)
Portland	51.6 (-27%)
Boise	50.5 (9%)
New York	49.9 (-34%)
Salt Lake City	49.8 (-23%)
Indianapolis	49.6 (-17%)
Tampa	47.5 (-15%)
Orlando	44.1 (-21%)
Las Vegas	43.8 (-10%)
Miami	43.2 (-19%)
Raleigh	43.1 (-28%)
Charlotte	42.4 (-21%)
Seattle	39.5 (-13%)
Philadelphia	39.1 (-31%)
Los Angeles/OC	38.9 (-35%)
Washington, DC	37.7 (-37%)
Nashville	37.6 (-40%)
San Francisco	37.5 (-27%)
Baltimore	30.6 (-48%)
San Diego	25.2 (-44%)

Source: Zonda; Data as of 4Q20



David Brown

How Single-Family Built-for-Rent Differ from Built-for-Sale



- SFBFR are typically smaller with fewer bedrooms and bathrooms.
- SFBFR are more likely to be a single-story building.
- SFBFR are much more likely to be a townhouse (single-family attached).
- SFBFR are more likely to be located on a smaller lot.
- SFBFR are almost all wood-framed.
- SFBFR are more likely to have a vinyl siding exterior and less likely to have stucco.
- SFBFR are more likely to have a one-car garage or no garage.
- The highest count of SFBFR construction is found in the West South Central Census division (Texas, Oklahoma, Arkansas and Louisiana).
- Although a small share of the total, SFBFR are more likely to be age-restricted.
- SFBFR are more likely to have a smaller construction permit value but have many units with permit values above \$300,000.
- Average construction time is slightly longer for SFBFR homes.

Source: NAHB analysis of U.S. Census Bureau (BOC) data

<https://eyeonhousing.org/2019/08/contrasting-built-for-rent-and-for-sale-new-single-family-homes/>



/ Single-Family Rental Household Characteristics

SFBFR tenants have higher income and (slightly) larger households

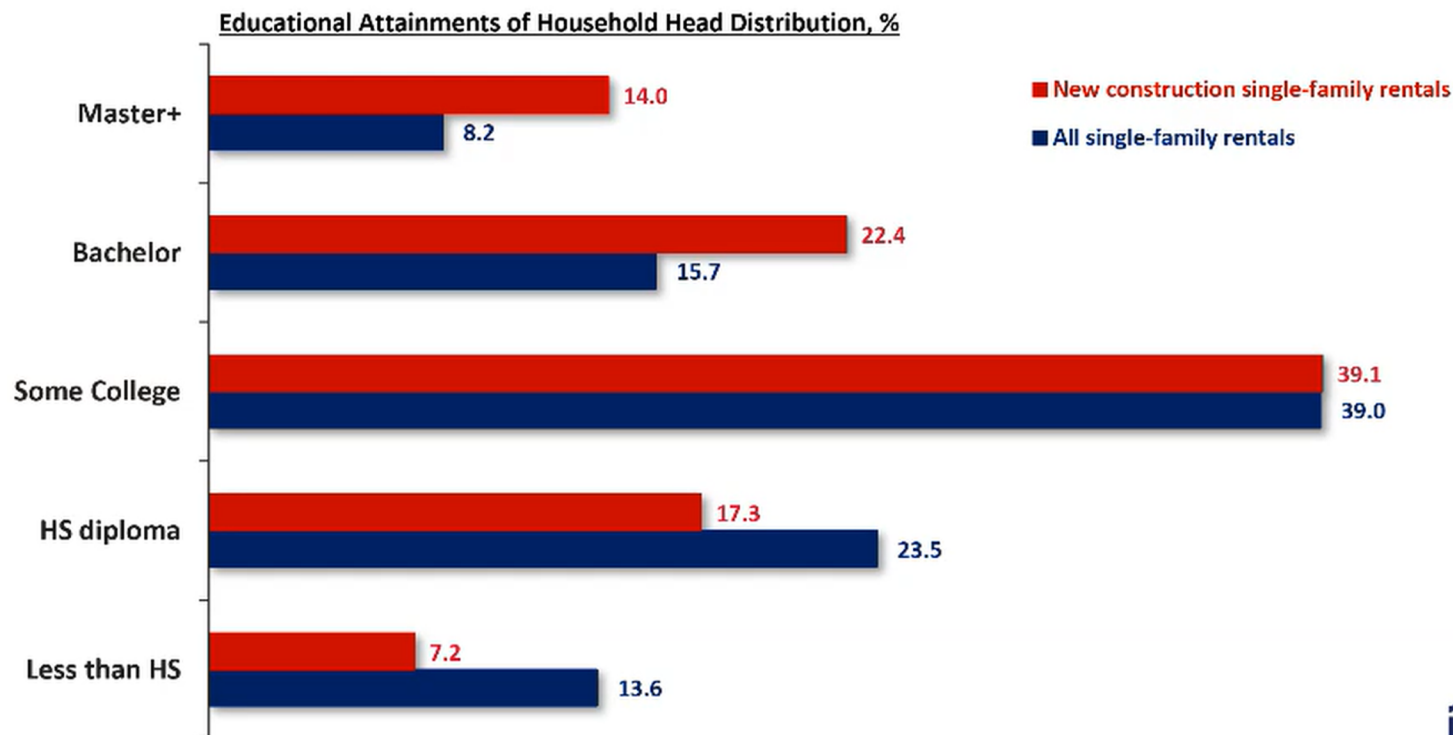
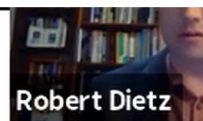


Source: NAHB tabulation of the 2019 American Community Survey



Single-Family Rental Household Characteristics

SFBFR tenants more likely to have college degrees

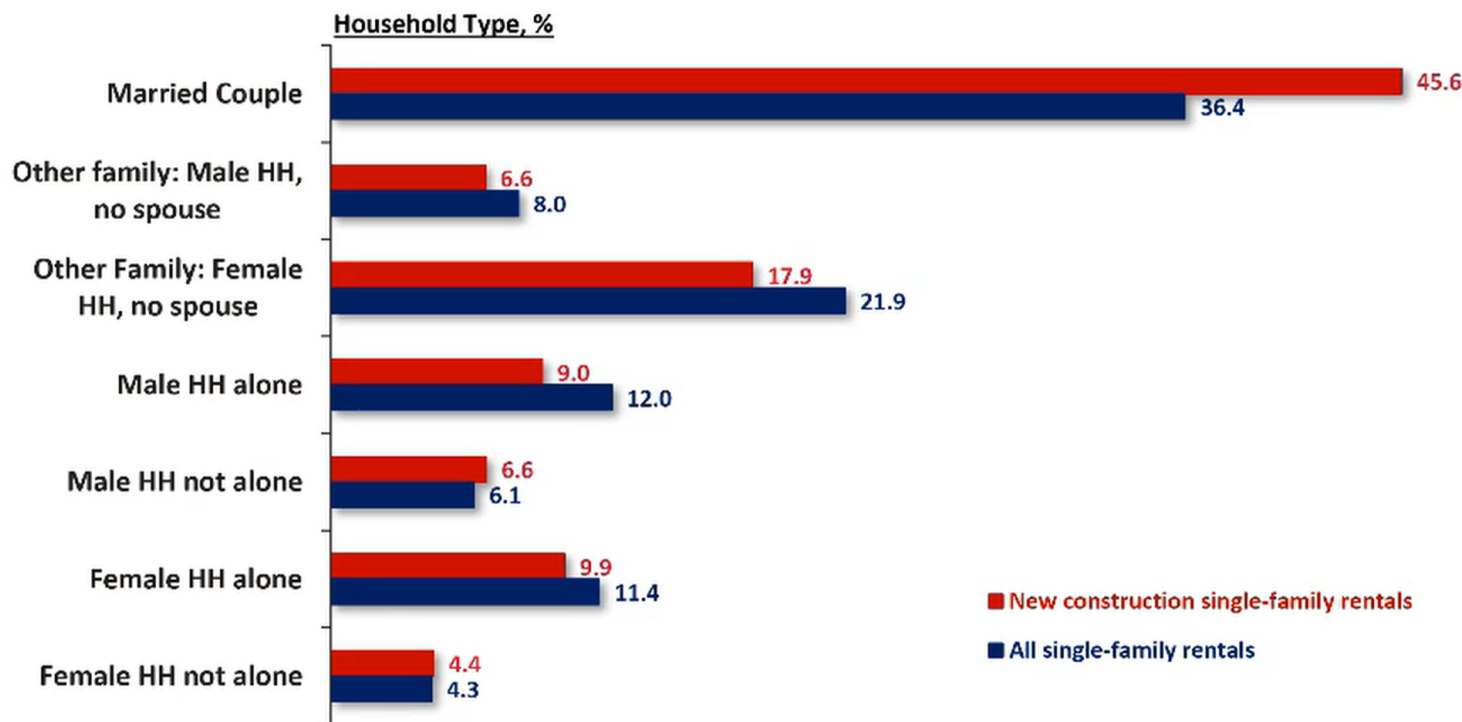
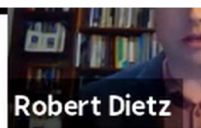


Source: NAHB tabulation of the 2019 American Community Survey



Single-Family Rental Household Characteristics

SFBFR tenants more likely to be married



Source: NAHB tabulation of the 2019 American Community Survey



Typical Amenities (5%-20% premium)



CUSTOMER DRIVEN DESIGN

- Smart gated entry
- Lush landscaping and small parks
- Optional detached garages
- Resort-Like heated pool and spa with cabanas
- Fitness Center and Yoga Studio in newest communities
- Multi-purpose event lawn
- Outdoor ramadas, firepits and barbeques
- Pet friendly with free pet doors
- Professionally managed – 24/7 on call maintenance support
- Events to foster a sense of community
- Roving evening security patrol

Design matters. #1 Motivator.

Top Motivation

A word cloud for 'SFA For-Rent' motivation. The words are arranged in a roughly circular shape. The most prominent word is 'open' in large red letters. Other words include 'spacious', 'peaceful', 'modern', 'liveable', 'oasis', 'homey', 'rejuvenating', 'cozy', 'big', 'plan', 'comfort', 'floor', 'comfortable', 'chic', 'bright', 'trasher', 'organized', 'concept', 'design', 'fresh', 'safe', 'multipurposed', 'outstanding', 'quality', 'filled', 'efficient', 'amazing', 'concept', 'peaceful', 'farmhouse', 'family', 'calm', 'beautiful', 'fresh', 'efficient', 'dreamy', 'boujee', 'chic', 'comfy', 'comfort', 'livable', 'floor', 'community', 'yard', 'comfortable', 'modern', 'safe', 'filled', 'efficient', 'amazing', 'concept', 'peaceful', 'farmhouse', 'family', 'calm', 'beautiful', 'fresh', 'efficient'.

Interest: SFA For-Rent

Location
Price
Home Design



A word cloud for 'SFD For-Rent' motivation. The words are arranged in a roughly circular shape. The most prominent word is 'open' in large purple letters. Other words include 'spacious', 'modern', 'safe', 'peaceful', 'family', 'calm', 'beautiful', 'fresh', 'efficient', 'dreamy', 'boujee', 'chic', 'comfy', 'comfort', 'livable', 'floor', 'community', 'yard', 'comfortable', 'modern', 'safe', 'filled', 'efficient', 'amazing', 'concept', 'peaceful', 'farmhouse', 'family', 'calm', 'beautiful', 'fresh', 'efficient'.

Interest: SFD For-Rent

Home Design
Location
Price

The Arrival

#F



Chris Texter...

- 1| Main Entry Focal Point
Residents Guests Future
- 2| Residential Street
- 3| Resident Parking
- 4| Guest Parking



Typology

SINGLE FAMILY

Conventional Lots, Clusters, Single Lot

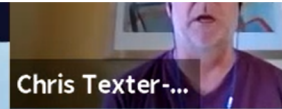
3 and 4 bedroom typically no dens or lofts

Single and two story

1500-2300 sf

Attached two car garages

Backyard space, maintenance?





Typology

HORIZONTAL APARTMENTS

"Cottages"

1, 2, 3 Bedrooms typically single story detached or duplex
650-1000 s.f.

Carports some detached garages.
Possible carriage unit
Site planning important



Typology



TOWNHOMES

With or without property lines
2, 3 or 4 bedroom 2 or 3 story
1100-200 s.f.

Rear loaded
Front loaded in some jurisdictions
Fee simple on public street
Private outdoor space is a premium

Driven by unit count or zoning.



80 – One Bedroom
114 – Two Bedroom
46 – Three Bedroom

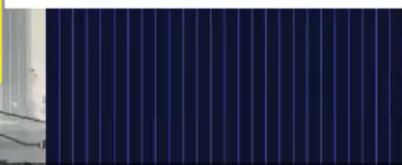
Community vib



Mixing product types

Long term attitude

Upgraded streetscapes



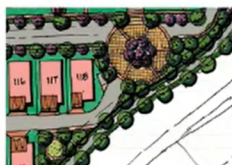
14 – Duplex Front Load
35 – Cluster
152 – Duplex Alley



Clubhouse, Leasing & Amenity Center
Scale 1"=20'



Sit Out Area 3
Scale 1"=40'



Sit Out Area 4
Scale 1"= 40'



Sit Out Area 1
Scale 1"=40'



Playground Area 1
Scale 1"=30'



Sit Out Area 2
Scale 1"=40'



Playground Area 2
Scale 1"= 30'



Primary Entry/ Sit out
Scale 1"=40'



Secondary Entry/Sit Out
Scale 1"=40'

Community vib

Multiple outdoor activity areas

Long term attitude

Destination neighborhoods

#F



Dan Swift







NEQUETTE
ARCHITECTURE & DESIGN

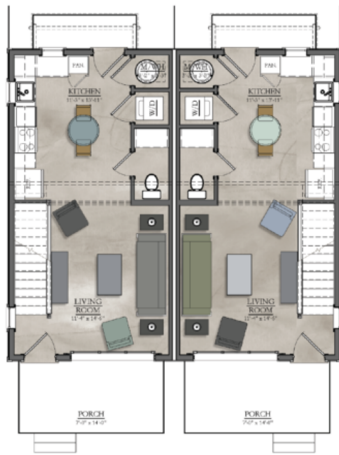
JANUARY 2020



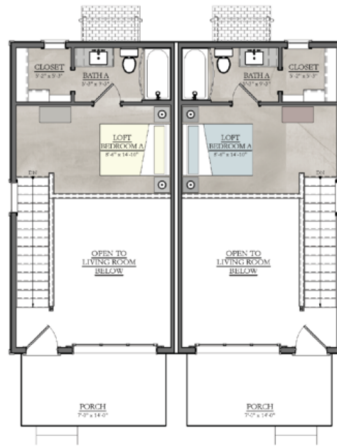
STUDIO LOFT (ONE BEDROOM)



Elevation



Main Floor Plan
(480 sq. ft.)



Upper Floor Plan
(256 sq. ft.)

Windows & porches vary per elevation

CAPSTONE COTTAGES

736 sq ft

SQUARE FOOTAGE VARIES BASED UPON ELEVATION AND FLOORPLANS, NEED NOT BE BUILT

THREE BEDROOM COTTAGE



Elevation



Main Floor Plan
(720 sq ft)



Upper Floor Plan
(626 sq ft)

Windows & porches vary per elevation

CAPSTONE COTTAGES

1346 sq ft

SQUARE FOOTAGE VARIES BASED UPON ELEVATION AND FLOORPLANS, NEED NOT BE BUILT

📊 Zonda

Newcomers can 'test drive' a market

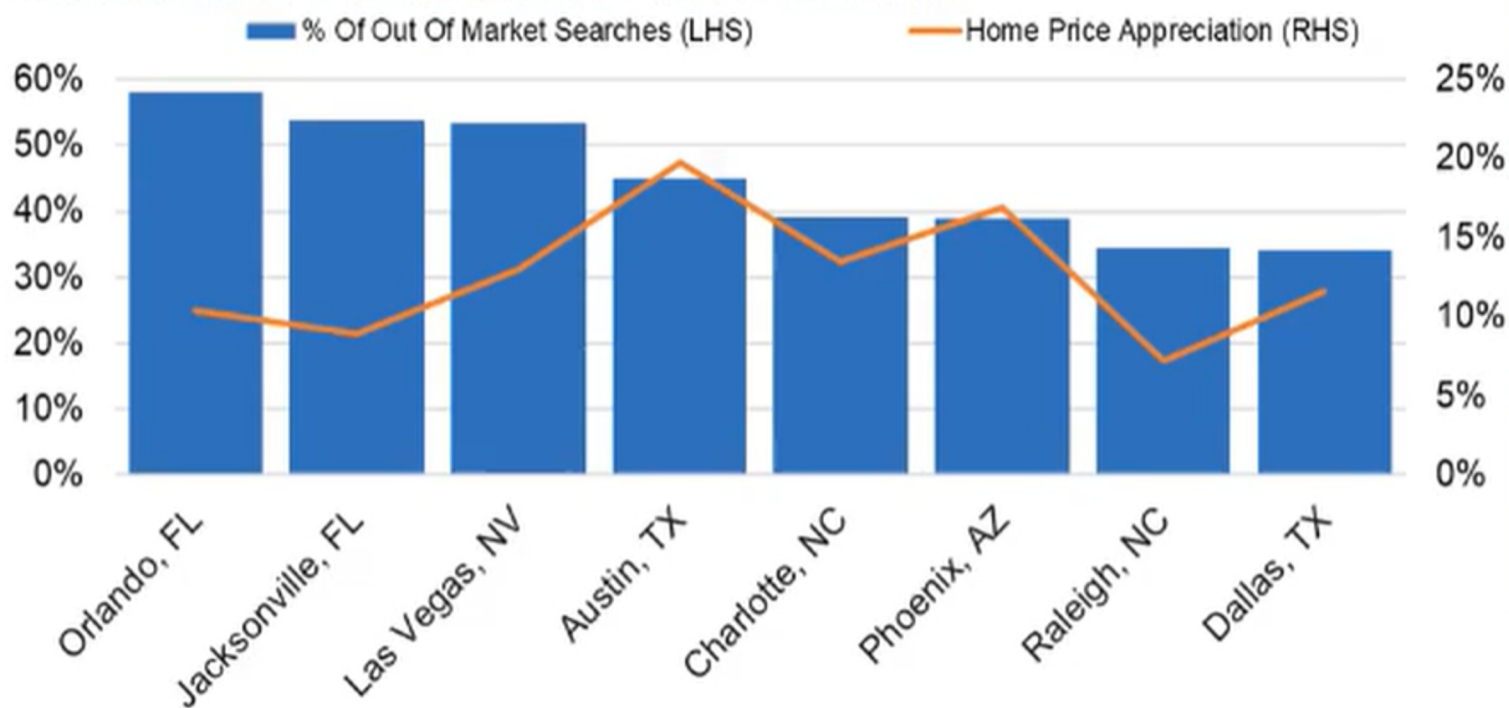


Positive Domestic Net Migration

Rank	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
1	Austin	Austin	Austin	Austin	Las Vegas	Austin
2	Raleigh	Tampa	Tampa	Las Vegas	Austin	Phoenix
3	Nashville	Raleigh	Raleigh	Tampa	Jacksonville	Las Vegas
4	Denver	Orlando	Jacksonville	Raleigh	Phoenix	Raleigh
5	San Antonio	Jacksonville	Las Vegas	Jacksonville	Raleigh	Jacksonville
6	Charlotte	Las Vegas	Charlotte	Charlotte	Tampa	Tampa
7	Houston	Nashville	Orlando	Phoenix	Charlotte	Charlotte
8	Las Vegas	Denver	Nashville	San Antonio	San Antonio	San Antonio
9	Orlando	Charlotte	Phoenix	Nashville	Nashville	Tucson
10	Tampa	San Antonio	San Antonio	Orlando	Tucson	Nashville

Source: U.S. Census Bureau; Zonda

Markets With The Most Out Of Metro Searches



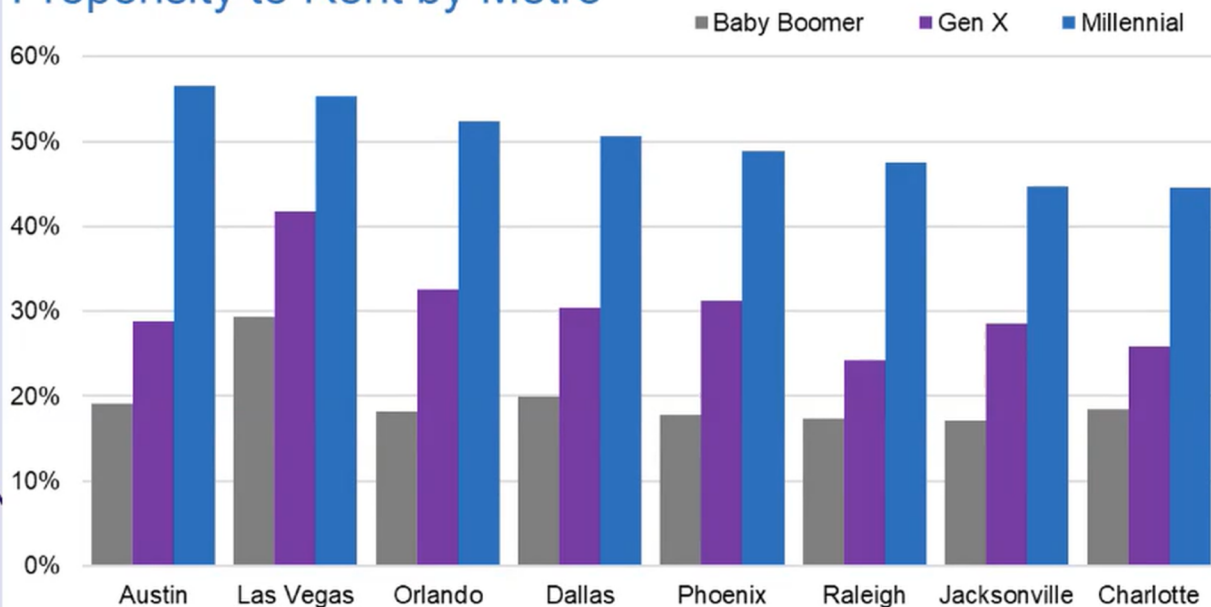
Source: Redfin; Zonda

Rental demand crosses generations, led by younger cohorts

Propensity to rent is the inverse of the homeownership rate



Propensity to Rent by Metro

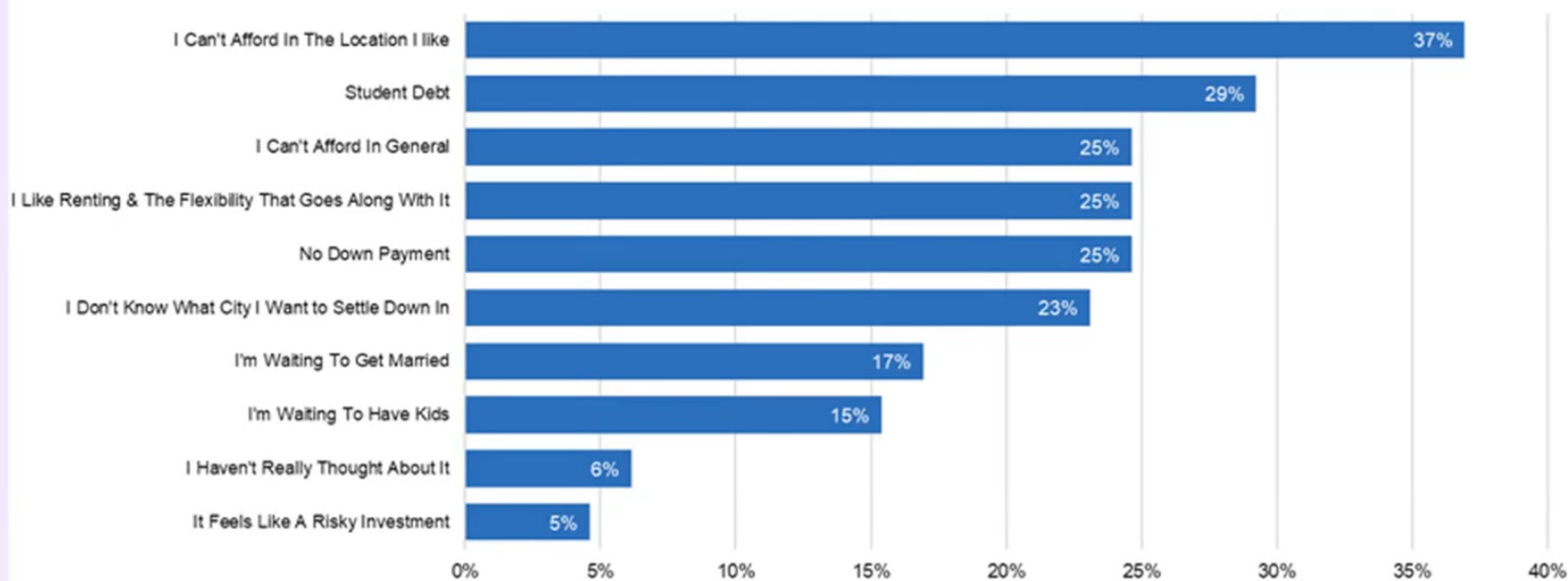


% Zonda.

BTR offers a no DP, private, flexible, and low maintenance lifestyle



If You Don't Own, Why Not?



Respondents could pick up to three answers

Source: Zonda Millennial Survey

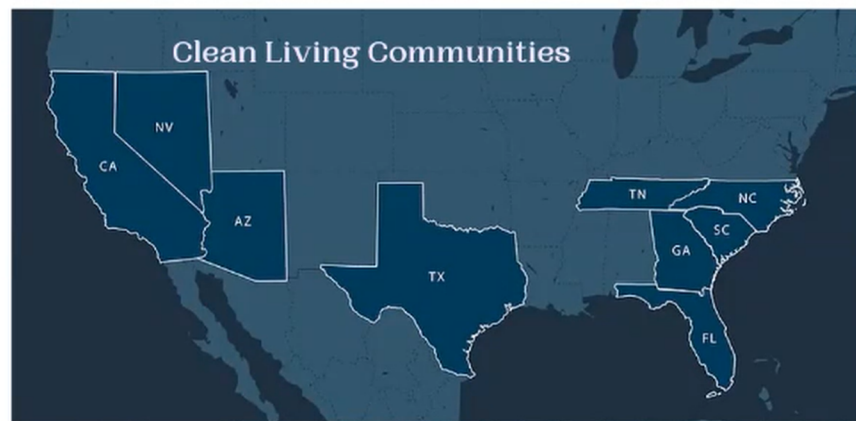
Who is doing build-to-rent in “X” market?

BB Living: “we are initially targeting the Phoenix, Denver, Las Vegas, Jacksonville, Dallas, Houston and Boise markets.”

NexMetro (Avilla): Phoenix, Dallas, Denver, Tampa

AHV Communities: San Antonio, Austin, Houston, Seattle

AH4R: Southeast, Midwest, Texas, Florida, and the West



Source: Zonda

Significant overlap with some of the nation's strongest for sale new home markets

Rank	Market	2020 Starts	YOY Change	YOY Change %
1	Dallas/Ft. Worth	42,632	7,704	22.1%
2	Houston	36,739	6,192	20.3%
3	Central Florida	30,289	3,657	13.7%
4	Phoenix/Tucson	29,108	3,231	12.5%
5	Atlanta	27,162	2,746	11.2%
6	Austin	21,432	2,527	13.4%
7	Denver/Colorado Springs	21,372	2,085	10.8%
8	Southern California	18,377	1,583	9.4%
9	San Antonio	16,405	2,588	18.7%
10	Salt Lake City	15,822	2,962	23.0%
11	Northern California	14,878	298	2.0%
12	Tampa	14,315	1,561	12.2%
13	Raleigh/Durham	14,159	1,079	8.2%
14	Charlotte	13,847	1,304	10.4%
15	Philadelphia Region	12,407	561	4.7%
16	Central California	11,625	782	7.2%
17	Las Vegas	11,540	905	8.5%
18	Nashville	10,822	1,774	19.6%
19	Suburban Maryland	10,338	-372	-3.5%
20	Jacksonville	10,328	1,434	16.1%
21	South Florida	9,946	955	10.6%
22	Seattle	9,937	-951	-8.7%

What makes BTR so attractive?

Renters



Great product for life transitions



Financial constraints



Product and location preferences

Key Concern: Rising Rents

Builders/Developers



Enhances buyer/renter segmentation



Achieve higher margins due to lower marketing costs



Can manage inventory and increase overall activity

Key Concern: Asset Management vs. Building

Investors



Occupancy levels, low tenant turnover, stable cash flows



Lower maintenance costs and economies of scale in terms of property management



Multiple exit strategies exist

Key Concern: Achieving Desired Returns

What amenities do we need?

Most Common Amenities:

- ☐ Private outdoor space
- ☐ Clubhouse / fitness center
- ☐ Pool
- ☐ Playground / Green Space
- ☐ Onsite leasing / maintenance

Targeted Amenities:

- ☐ Dog park
- ☐ Pet washing station
- ☐ Cornhole/Bocce game courts
- ☐ Splash Pad

AHV Communities - Pradera



Urbana – Goodnight Ranch



Christopher Todd @ Stadium



Ziber – Estia at Lakewood Ranch





What are cap rates in the BTR space?

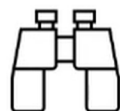
- ❑ Capitalization rates are not widely available in the BTR space (relatively new and thinly traded).
- ❑ Our research indicates range of 4.5% to 6.5%.
- ❑ As a proxy, BTR capitalization rates are generally 100 to 150 BPs above rates for Class “A” apartments.

Capitalization Rate Primer

NOI/Market Value

The ratio represents
potential annual ROI.

Key Consideration: Cap rates will vary based on location, vacancy levels, and deferred maintenance.



While treasury rates (risk free investments) bear monitoring, the correlation between rising treasury rates and rising cap rates is weak (often spreads compress versus cap rates rising).

Final thoughts.

- 1) Driven by “Renter-by-**choice**” market
- 2) Expected to become 10-15% of homebuilding market. Others say 25-30% in a few years. SE and SW are front lines. Atlanta is largest SFR rental market.
- 3) BIG OPPORTUNITY FOR MEDIUM / SMALL SIZE BUILDER. Use non-recourse \$.
- 4) Overseas investment is absolutely coming into this space. We engage from Asia, Middle East, Canada - making very large investment. Less “yes/no” and more “How do I get scale?”
- 5) Same capital as MF chasing BTR.
- 6) CAP rates:
 - a) Basically same as MF, Varies by purchase point:
 - b) Development 5.7-6%
 - c) At CO - 5%
 - d) Stabilized - 4.25%
- 7) The Multifamily/ULI guys “are all starting ‘Hamlet Divisions’”

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