

The Built-For-Rent Land Rush Is Intensifying; Here Are Five Drivers.

[Brad Hunter](#)

Contributor

[Real Estate](#)

I consult on new housing developments at Hunter Housing Economics

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Concept site-plan for new rental neighborhood within the acclaimed Nexton planned community. This ... [+]

Image courtesy of Capstone Communities

The hottest thing in residential development is built-for-rent single-family communities (BFR), and billions of investment dollars are lined up to serve the growing need. Investors seeking yield are having difficulty finding enough built homes to buy, so they are shifting more attention to “ground-up” development of brand-new rental single-family neighborhoods.

The land-rush is intense. Land brokers get 50 calls from groups just now entering the BFR arena for every one “veteran” buyer, and the demand for land far outstrips the supply of suitable land for sale. A site that is well-suited for built-for-rent will typically get between 10 and 25 offers.

Land brokers dealing in residential parcels traditionally sell to developers and builders who are planning communities in which people *buy* homes. Now, they are starting to see a growing share who are buying land to build *rental* single-family communities.

PROMOTED

I spoke with my friend Greg Vogel, who runs Scottsdale, AZ-based [Land Advisors](#), the largest land company in the U.S., and he told me that between 5% and 10% of their land sales are for BFR right now, and that the percentage share is growing rapidly month after month. He said he anticipates that percentage will “double or triple in the next couple of years.”

Who is *Buying* All These BFR Tracts?

The buyers of these land parcels run the gamut, from smaller local players to major platforms with billions of dollars behind them. The major players have dominated the headlines, partly due to the large sums of money they wield, but less-well-known firms comprise the majority of the activity.

Different BFR land investors have different preferences. Some want to maximize density, aiming for 11 or 12 units per acre (typically pursuing the [“horizontal apartments” strategy](#) in that case), while others, like American Homes 4 Rent, only



A home in an Avilla community by NexMetro. NexMetro is a pioneer and leader in built-for-rent ... [+]

Photo courtesy of NexMetro

build traditionally-platted single-family homes, at densities closer to 4 to 5 per acre. Parcels suited to rental townhomes, with a density in the middle of those ranges, are in extreme demand.

Rental yields are starting to allow BFR investors to outbid the homebuilders. In our research, we have seen single-family rents rising by 7% to 10% a year over the past twelve months in many areas. Within a given BFR community, rents are being escalated at rates faster than this, particularly when a tenant moves out and the next one comes in. Single-family rents are often seen rising



American Homes 4 Rent builds full-sized single-family homes in all of its communities nationwide. ... [+]

Photo courtesy of American Homes 4 Rent

the fastest in the secondary metro areas, boosting demand for BFR land in places like Augusta, Savannah, San Antonio, and St. Paul, as well as smaller cities in Florida like St. Cloud, Pensacola, and Port Charlotte.

Local Policies are Keeping Supply Low

There is more demand for the different types of built-for-rent than virtually any community will allow, or zoning is set up to accommodate. The shortage of land supply is partly due to attitudes within local governments, who often have a strong bias against rentals. And that derives from the fears of existing residents (voters). NIMBY attitudes mainly derive from a belief that a rental community will have a negative effect on existing home values. But what the NIMBY voters are only now beginning to learn, the renters who occupy these BFR neighborhoods are far from riff-raff; they often earn \$100,000 a year or more, and are renters *by choice*.

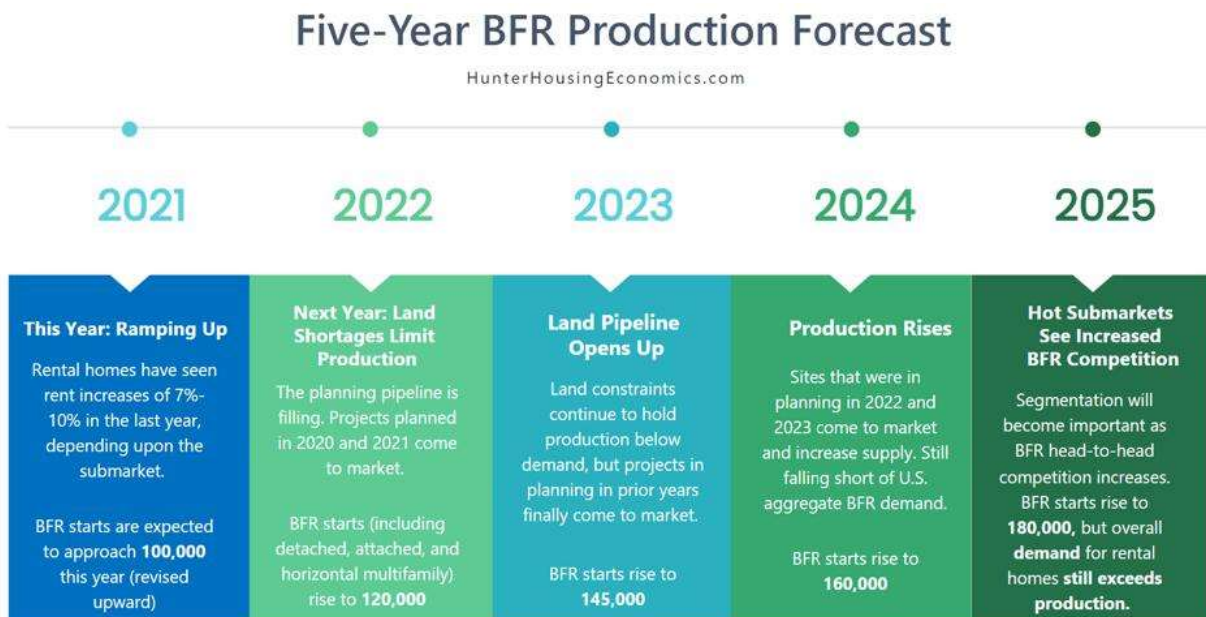
There are also political obstacles to the development of housing that is suited to families, driven by concerns about over-crowded schools, and about traffic impacts on nearby roadways.

Five Drivers of BFR Housing Demand

Multiple powerful forces are converging to drive and sustain demand for BFR for years to come. Here are five.

- 1) Household formation rates are at 1.6 million and still pushing higher (some Wall Street Analysts are now estimating 1.9 million!)
- 2) Millennials are having kids in large numbers, and they want to raise them in the suburbs, close to parks, other kids, and good schools, and they put a premium on having a yard.
- 3) Millennials have a high incidence of dog ownership, and there are major advantages to having a yard when you have a dog.
- 4) The need for sufficient space (or a dedicated room or two) for home offices is driving some out of apartments and into townhomes or detached housing units.
- 5) Home prices are getting out of reach for many young families, and renting a townhome or detached home is often their best option.

The potential for growth is enormous. There is uncertainty as to the current level of production, because the widely-cited data from the Census Bureau do not cover all aspects of built-for-rent development. Based upon our estimates, this is a representation of how the next few years could unfold, *if enough land can be sourced*.



Source: Hunter Housing Economics' September 2021 forecast of all types of built-for-rent housing starts, including SFD, SFA, and horizontal multifamily. Total is expected to eventually surpass 200,000 new-construction units per year.

Built-for-Rent Forecast

Hunter Housing Economics, Sept. 2021

The built-for-rent developers recognize the five growth drivers and the under-served demand, and they are designing communities specifically to address them. Private outdoor space, pocket offices, doggy doors, pet grass in back, smart-home tech inside, and communities with distributed public outdoor parks, sit-out areas, and playgrounds are some of the features they are designing into their communities today. The larger developments feature clubhouses and resort-style amenities, remote-working areas, and smart entry gates.

The demand drivers are going to persist for years, and the supply won't be able to catch up with the potential level of aggregate nationwide demand for a while. Even markets that have a fairly large supply of BFR (read: Phoenix, which was the birthplace of this whole movement) don't show evidence of serious crowding yet. There will be some submarkets that will experience a rising degree of head-to-head competition starting in 2024-2025, and developers will need to pay more attention to segmentation strategy over the next few years, but nationwide I'm seeing a good deal of runway left in front of us.