

# Low-Density Rental Housing in America



**Cover photo:** BB Living.

**Recommended bibliographic listing:**

Bacalao, Patricia, Adam Ducker, Ryan Guerdan, Todd LaRue, Liam Mercer, and Cameron Pawelek. *Low-Density Rental Housing in America*. Washington, D.C.: Urban Land Institute, 2021.

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The Urban Land Institute is a global, member-driven organization comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 80 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. In 2020 alone, more than 2,600 events were held in cities around the world.

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

More information is available at [uli.org](http://uli.org). Follow ULI on Twitter, Facebook, LinkedIn, and Instagram.

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The goal of the Urban Land Institute Terwilliger Center for Housing is to advance best practices in residential development and public policy and to support ULI members and local communities in creating and sustaining a full spectrum of housing opportunities, particularly for low- and moderate-income households.

Established in 2007 with a gift from longtime member and former ULI chairman J. Ronald Terwilliger, the center integrates ULI's wide-ranging housing activities into a program of work with three objectives: to catalyze the production of housing, provide thought leadership on the housing industry, and inspire a broader commitment to housing. Terwilliger Center activities include developing practical tools to help developers of affordable housing, engagement with members and housing industry leaders, research and publications, a housing awards program, and an annual housing conference.

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Since 1967, RCLCO has been the “first call” for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development. RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over a half-century and thousands of projects—touching over \$5 billion of real estate activity each year—RCLCO brings success to all product types across the United States and around the world.

RCLCO is organized into three overlapping and reinforcing service areas: real estate economics, management consulting, and advisory services for institutional investors through RCLCO Fund

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# 1. Introduction and Background

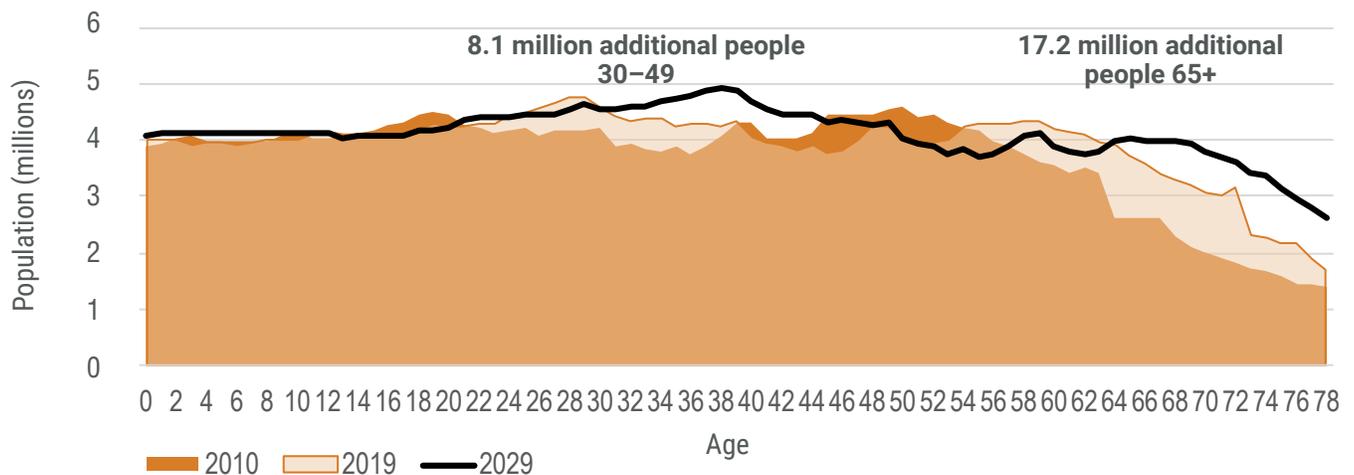
The United States is home to a broad spectrum of households with diverse housing needs; however, new rental deliveries in the past decade have primarily consisted of large-scale multifamily communities. Development patterns over the past decade have responded in part to the oversupply of single-family homes during the subprime lending crisis and the high concentration of millennials in their prefamily years, typically living in smaller urban apartments. Furthermore, regulatory challenges with missing-middle housing in many municipalities and the availability of equity and debt in the capital markets for conventional multifamily properties exacerbated rental housing's uniformity.

Demographic trends suggest the number of adults under the age of 30 is likely to level out, but significant population growth in the

30- to 49-year-old segment is expected over the next decade as the millennial cohort continues to mature and progress into prime family formation ages. Although many of these households will purchase homes, as demonstrated across the country over the past 12 months, many millennials will continue to rent because of lifestyle or affordability reasons. Given the constrained housing market and rising construction costs, affordability is one of the most pressing challenges facing many Americans. The median sales price for a home in the United States has increased steadily since the Great Recession, whereas incomes have grown at a slower rate. Today, the median home price is 5.6 times higher than the median income in the United States, a significant change from the average of approximately 4.0 from 1985 to 2000.<sup>1</sup>

## HISTORICAL, CURRENT, AND PROJECTED POPULATION BY AGE

United States—2010, 2019, 2029 (projected)



Sources: U.S. Census Bureau; Esri.

<sup>1</sup> Moody's Analytics.



Though the long-term implications remain uncertain, the COVID-19 pandemic will significantly influence the future of the real estate industry. Despite noteworthy increases in new-home sales and broad single-family-home price appreciation of new and existing homes, the pandemic and economic shutdowns have created financial hardship for millions of American households. As the *ULI Terwilliger Center 2021 Home Attainability Index* has reflected, homeownership is even further away today for many because of income or employment loss during the pandemic, coupled with the rapid rise in national home prices. As a result, many households will likely remain in the rental housing market for extended periods.<sup>2</sup>

The demographic tailwinds, the impact of COVID-19, and growing affordability concerns, highlighted in ULI's *Emerging Trends in Real Estate*® 2021 report, contribute to the rapid institutionalization of a new rental housing product type: purpose-built single-family rentals. While single-family rental homes are not a novel concept, as households

have rented single-family homes for decades, purpose-built single-family rental homes are a relatively new concept.

Traditionally, single-family rentals have been primarily owned and operated by small-scale investors, accounting for more than 97 percent of existing inventory. However, following the subprime mortgage crisis and resulting Great Financial Crisis, several institutional investors (e.g., Invitation Homes/Blackstone Group, American Homes 4 Rent, Tricon American Homes) began aggregating homes in delinquency or foreclosure into rental portfolios. With national home prices bottoming in the first quarter of 2012 and excess housing supply in the market, many of these groups began to acquire significant numbers of individual properties. Despite these real estate investment trusts (REITs) and private companies purchasing tens of thousands of single-family homes over the past decade, it is estimated that institutional investors (owning more than 2,000 homes<sup>3</sup>) represent less than 3 percent of the total single-family rental homes in the United States.

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<sup>2</sup> Michael A. Spotts, *ULI Terwilliger Center 2021 Home Attainability Index: Housing, Health, and the COVID-19 Crisis* (Urban Land Institute Terwilliger Center for Housing, March 2021), [knowledge.uli.org/en/reports/research-reports/2021/terwilliger-center-home-attainability-index](https://knowledge.uli.org/en/reports/research-reports/2021/terwilliger-center-home-attainability-index).

<sup>3</sup> Altus Group and U.S. Census Bureau.

Given the increase in home prices and historically low inventory levels, single-family rental aggregators face scalability challenges. Furthermore, with portfolios spanning numerous submarkets and markets, these aggregators face challenges providing consistent and high-quality property management. Recognizing these challenges, both existing operators and new single-family rental developers entering the market are opting to pursue ground-up development on more significant sites or bulk takedown agreements from homebuilders to provide better management, service, and amenities as well as increase scalability.

Single-family rentals (SFRs) benefit from the maturing millennials seeking a new type of rental product that matches their changing lifestyles, empty nesters looking to downsize, and the array of households in transitional life stages. Single-family rental housing will likely benefit from a robust

segmentation strategy, appealing to both renters by choice and renters by necessity. Furthermore, SFRs provide the added interior space and yard for the growing number of households with pets and employees working from home, a key trend outlined in ULI's *Emerging Trends 2021*.

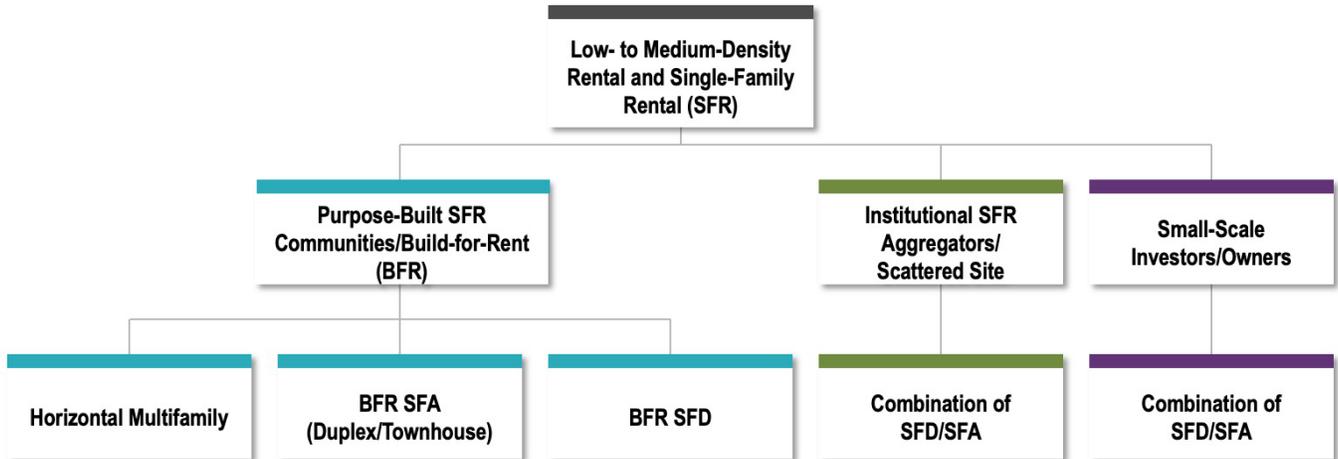
Given the strong tailwinds for purpose-built SFR housing, many new players have entered or are considering the purpose-built single-family asset type, including REITs, developers, investors, homebuilders, and crowdfunding platforms. Furthermore, given the organic growth of the product type over the past 10 years, a wide variety of products, communities, and strategies exist, which increases confusion across the industry and the media regarding nomenclature. RCLCO and ULI have set out to codify the SFR market's language, product types, and differentiating characteristics.



## 2. Defining a Rapidly Evolving Product Type

The competitive landscape for institutionalized SFR housing continues a rapid evolution as more companies enter the asset class, each with various strategies, product types, positioning, and locations. Market participants are diverse, including more than 60 known developers and operators nationwide, with more entrants each day. The SFR market includes individual investors;

REITs; purpose-built SFR developers (AHV Communities, Christopher Todd, NexMetro); diversified developers (Brookfield, Provident Realty); public and private homebuilders (Taylor Morrison, Lennar, Toll Brothers, David Weekley Homes); multifamily developers (Greystar, Middleburg Communities); crowdfunding platforms (Fundrise); and online marketplaces (Zillow).



**BFR communities** provide cohesive offerings of single-family rental homes, with on-site management and maintenance *within the three subcategories below*:

**Horizontal multifamily communities** share many similarities with multifamily properties in terms of unit sizes, unit types, and amenities but do not have stacked units

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

**BFR single-family detached** typically offer the largest homes of the three subcategories, often containing three or more bedrooms

**Institutional SFR aggregators/scattered site** consist of uniformly branded properties that are professionally managed and use a master leasing and operating platform; given housing supply constraints, aggregators are moving to bulk home takedown structures in partnerships with homebuilders

**Small-scale investors/owners** represent the largest share of units in the single-family rental market; homes are owned and operated by small-scale investors who typically own fewer than three rental properties

**Single-Family definition:** Single-family structures include fully detached, semi-detached (semi-attached, side-by-side), rowhouses, duplexes, quadruplexes, and townhouses. For attached units to be classified as single-family structures, each unit must be separated by a ground-to-roof wall and have a separate heating system and individual meters for public utilities, with no units located above or below.

Despite the significant variation in offerings already in the market, most market participants agree on the asset class's overarching term: **single-family rentals**.<sup>4</sup> However, less consensus exists on the subclassifications. RCLCO and ULI analyzed hundreds of news articles and conducted interviews with various market experts to attempt to codify the language around the product type. Under the overarching SFR umbrella, land use is further differentiated based on the single-family rental structure and ownership model.

**a. Small-Scale Investors/Owners:** Representing more than 97 percent of the existing SFR housing market, this category is typified by individuals or groups of investors that purchase individual homes and rent them to tenants. Small-scale investors generally own few properties, with most owning fewer than three homes, and lack the scale required for operating and marketing efficiencies. These rentals are often referred to as the “shadow market,” with listings typically available on online marketplaces, such as Zillow. While less prevalent, some developers and builders are starting to market for-sale homes directly to individual investors looking to purchase rental properties.

**b. Institutional SFR Aggregators/Scattered Site:**

Representing the initial institutionalization of SFRs, these businesses aggregated thousands of homes across various markets and states following the Great Financial Crisis, leveraging scale and robust platforms to streamline the SFR process. Given housing constraints and elevated home prices in most rapidly growing U.S. markets, aggregators increasingly work with homebuilders to purchase blocks of new-construction homes in bulk to add to their platforms. This partnership with builders reduces market risks for homebuilders while allowing institutional aggregators the scale needed for capital deployment.

**c. Purpose-Built SFR Communities/Build-for-Rent:**

The newest of the three, this category includes communities specifically designed and dedicated to SFR housing. Build-for-rent (BFR) communities incorporate consistent branding, housing quality, and vintage. Furthermore, these communities often offer on-site resources, such as leasing services, property management, and amenities. Although multifamily rental properties could qualify as BFR, the industry jargon has quickly associated the term specifically with purpose-built SFR communities.

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<sup>4</sup> This report adopts for convenience the U.S. Census Bureau's definition, as follows. Single-family structures include fully detached, semi-detached (semi-attached, side-by-side), rowhouses, duplexes, quadruplexes, and townhouses. For attached units to be classified as single-family structures, each unit must be separated by a ground-to-roof wall and have a separate heating system, individual meters for public utilities, and no units located above or below.



The next layer of product and community differentiation relates to the specific product typologies. While small-scale investors and institutional SFR aggregators primarily own single-family detached (SFD) homes without shared walls, these investors may also own single-family attached (SFA) homes that share one or more walls (e.g., townhouses, duplexes, rowhouses). Product typologies vary widely in BFR communities, with housing products ranging from single-family detached homes

on individually platted lots, various SFA typologies, or “horizontal multifamily” offerings. Horizontal multifamily is new jargon used in the industry to characterize a BFR community that offers unit sizes and bedroom counts comparable to multifamily properties but without stacked dwelling units. Horizontal multifamily properties typically consist of small SFD patio homes and SFA units (e.g., townhouses or duplexes) on land zoned for traditional multifamily development.

### 3. Build-for-Rent Concept and Community Profiles

This section outlines the key characteristics of each unique SFR subclassification. Project profiles are included with some of the subclassifications discussed to illustrate key characteristics of successful communities.

#### HORIZONTAL MULTIFAMILY

BFR horizontal multifamily communities deliver many similarities to multifamily properties, including unit sizes, location, zoning, bedroom types, and amenities, but lack stacked units and tend to offer more three-bedroom units than traditional multifamily communities. Composed of dense one-story SFD units, as well as townhouses and duplexes for the smallest units, horizontal multifamily communities can achieve densities of nine to 14 dwelling units per acre, depending on the unit mix and site layout. These communities generally offer between 100 and 150 units, though projects are becoming increasingly more extensive to boost operating efficiency as the product

has demonstrated market acceptance. Horizontal multifamily communities are typically developed on land zoned for commercial or multifamily uses, given the density and construction configuration of the product.

**Amenities:** Amenities at horizontal multifamily communities generally include private fenced patios or lawns, a resort-style pool, a small fitness center, a clubroom, and a business center. The private patios or lawns are often gravel or artificial turf to minimize maintenance needs. Units generally do not include attached garages, but ample street parking and rentable detached garages are available. In-unit washing machines and dryers typically come with each unit.

#### PROJECT PROFILES: SUCCESSFUL HORIZONTAL MULTIFAMILY COMMUNITIES

**Avilla Eastlake**  
Thornton, Colorado

Product type: Horizontal multifamily  
Developer: NexMetro  
Year built: 2020  
Units: 244  
Status: Lease-up

Avilla Eastlake is a new horizontal multifamily community in Thornton, Colorado. Its suburban infill location provides residents with excellent accessibility around Denver and ample neighborhood retail. The primary target markets are maturing millennials and adult households that rent by choice.



Amenities		
Swimming pool	Dog run	
Jacuzzi-spa	Playground	
Sports court	BBQ-grilling area	
Detached garages – \$150		

Type	Units	Mix	Unit size (sf)		Asking rent		
			Min – Max	Avg	Min – Max	Avg	Avg \$/sf
1 BR	78	32%	638 – 638	638	\$1,604 – \$1,694	\$1,642	\$2.57
2 BR	97	40%	981 – 981	981	\$2,083 – \$2,269	\$2,153	\$2.19
3 BR	69	28%	1,289 – 1,289	1,289	\$2,369 – \$2,460	\$2,426	\$1.88
<b>Total/avg</b>	<b>244</b>	<b>100%</b>	<b>638 – 1,289</b>	<b>958</b>	<b>\$1,604 – \$2,460</b>	<b>\$2,067</b>	<b>\$2.16</b>

Source: NexMetro Communities.

**Christopher Todd  
Communities at Marley Park  
Surprise, Arizona**

Product type: Horizontal multifamily  
Developer: Christopher Todd  
Year built: 2020  
Units: 175  
Status: Stabilized

Located within the Marley Park MPC, Christopher Todd Communities at Marley Park offers horizontal multifamily homes and a full amenities package. The location is vehicle oriented, but nearby parks provide a traditional suburban lifestyle that is attractive to young families and prefamily couples.



**Amenities**

- Swimming pool
- Jacuzzi-spa
- Sports court
- Detached garages – \$165
- Lounge-clubhouse
- Fitness center
- BBQ-grilling area

Type	Units	Mix	Unit size (sf)		Asking rent		
			Min – Max	Avg	Min – Max	Avg	Avg \$/sf
1 BR	82	47%	668 – 668	668	\$1,315 – \$1,315	\$1,315	\$1.97
2 BR	93	53%	1,022 – 1,022	1,022	\$1,770 – \$1,800	\$1,785	\$1.75
<b>Total/avg</b>	<b>175</b>	<b>100%</b>	<b>668 – 1,022</b>	<b>856</b>	<b>\$1,315 – \$1,800</b>	<b>\$1,565</b>	<b>\$1.83</b>

Sources: Christopher Todd Communities; Axiometrics.

**Market Audience:** The most populous renter segment at most horizontal multifamily communities is older millennials transitioning into a new lifestyle or preparing to start a family. These individuals are accustomed to renting and may be saving for a downpayment, but they seek enhanced privacy or space for pets. Another segment consists of mature adults or families accustomed to living in single-family homes but that are moving to a new city and renting before buying or are recently divorced. Horizontal multifamily also attracts a small share of empty nesters who appreciate the convenience of renting but prefer a single-family home to living in a multifamily property.

**Location/Setting:** The horizontal multifamily product was initially pioneered in Arizona and expanded to Texas, Colorado, Florida, New Mexico, and North Carolina. Using previous research from RCLCO and ULI’s Terwilliger Center for Housing classifying suburban and urban neighborhoods, approximately 75 percent of horizontal multifamily communities are developed as infill projects in established suburban locations, with the balance primarily concentrated in rapidly growing greenfield

suburbs. Given the land use density and zoning, horizontal multifamily projects typically compete with garden-style apartments for developable land.<sup>5</sup>

**Competition and Positioning:** Horizontal multifamily fills a product gap between traditional single-family homes and garden-style multifamily apartments. It attracts households that prefer a single-family home’s privacy but do not need or cannot afford the large square footages of traditional single-family homes. The main competition to horizontal multifamily is garden-style apartments, with some competition from SFA and SFD homes on the shadow market. Because horizontal multifamily housing is generally preferred to the alternatives, it commands a substantial premium on a size-adjusted price per square foot basis relative to comparable garden-style multifamily and the local single-family shadow market. Despite premium positioning, smaller unit sizes at horizontal multifamily communities typically produce lower monthly rent payments than the monthly cost of ownership within the same submarket.

<sup>5</sup> Urban Land Institute, *Housing in the Evolving American Suburb* (Washington, DC: Urban Land Institute, 2016); ULI Terwilliger Center for Housing and RCLCO, *The New Geography of Urban Neighborhoods* (Washington, DC: ULI and RCLCO, 2018).

## BUILD-FOR-RENT SINGLE-FAMILY ATTACHED

BFR single-family attached housing encompasses a broad spectrum of community configurations, unit types, and sizes, though each unit shares at least one vertical wall, and units are not stacked on top of each other. Because SFA communities are located in urban and suburban settings, they have noticeable variations in project sizes, typically ranging between 70 and 200 units. Furthermore, BFR SFA communities achieve densities of eight to 16 dwelling units per acre, with communities offering three-story townhouses able to achieve relatively high densities. Units at SFA communities generally provide two or more bedrooms and are larger on average than multifamily unit sizes but smaller than traditional single-family homes.

**Amenities:** The amenity offerings at BFR townhouse and duplex communities also differ by setting. BFR SFA communities in urban settings offer few amenities, though most communities provide a private fenced patio and an attached garage. In suburban locations, clubhouses with fitness centers are occasionally included, while additional outdoor amenities like a pool, grilling area, playground,

or sports courts are more common in the newer communities to help with differentiation. Depending on the target audience and market, operators may choose to include washing machines and dryers or only provide hookups.

**Market Audience:** Like other aspects of the product category, the prominent market audience is determined by the community's setting. Suburban townhouses/duplexes often serve as transitional housing while renters are building or seeking to purchase a house nearby. Household types include families moving to a new area and prefamily millennial couples choosing to rent before buying to explore a neighborhood or construct a home. These types of households skew slightly older than the demographic makeup of renters at horizontal multifamily communities.

Recent divorcees are also common renters at single-family attached communities, given the need for larger homes with additional storage space. SFA communities in urban infill locations are attractive to young professional couples and roommates, particularly at transit-oriented sites. A smaller share of empty nesters rent at both suburban and urban SFA communities.



**Location/Setting:** BFR townhouse and duplex communities are located across the United States, usually in Sunbelt cities with lower living costs. While SFA rentals exist on the shadow market in high-cost cities, they are rarely purpose-built for rent and are typically owned by small-scale investors. BFR SFA communities are prevalent in the Mountain West, Midwest, Sunbelt, and Southern California. As previously discussed, BFR townhouse and duplex communities are situated in both urban and suburban locations. BFR SFA communities are slightly more prevalent in established suburban infill locations, though greenfield suburbs represent a sizable and increasing concentration. SFA communities are typically zoned for multifamily development, but sites may be individually platted in some circumstances.

**Competition and Positioning:** The primary competitive market for SFA communities is the shadow market, owned by small-scale investors or SFR aggregators. Additional competition in some markets may come from townhouse-style or three-bedroom units at multifamily communities. Given larger unit sizes and increased competition from the shadow market, BFR SFA communities are typically priced a slight size-adjusted premium over garden-style apartments, though premiums vary by quality and amenitization of the SFA community. Larger unit sizes and strong pricing typically yield monthly rent payments comparable to the monthly cost of ownership, assuming at least a 10 to 15 percent downpayment.

**PROJECT PROFILE: SUCCESSFUL BUILD-FOR-RENT SFA COMMUNITY**

**BB Living at Val Vista**  
Gilbert, Arizona

Product type: BFR SFA  
Developer: BB Living  
Year built: 2021  
Units: 217  
Status: Lease-up

BB Living at Val Vista is a new townhouse community located in Gilbert, Arizona. The community is located on the suburban edge in a rapidly growing submarket of Phoenix. The local school district scores above the state average. The site is vehicle oriented but has excellent access to a nearby highway.



Amenities	
Swimming pool	Dog run
Fitness center	Playground
BBQ-grilling area	Attached garages included

Type	Units	Mix	Unit size (sf)		Asking rent		
			Min - Max	Avg	Min - Max	Avg	Avg \$/sf
3 BR	135	62%	1,604 - 1,679	1,650	\$2,254 - \$2,370	\$2,305	\$1.40
4 BR	82	38%	1,890 - 2,200	2,090	\$2,444 - \$2,634	\$2,563	\$1.23
<b>Total/avg</b>	<b>217</b>	<b>100%</b>	<b>1,604 - 2,200</b>	<b>1,816</b>	<b>\$2,254 - \$2,634</b>	<b>\$2,402</b>	<b>\$1.32</b>

Sources: Mark Taylor; Axiometrics.

## BUILD-FOR-RENT SINGLE-FAMILY DETACHED

BFR SFD communities are the most similar to SFR units owned by institutional aggregators and small-scale investors but benefit from economies of scale with high concentrations of units in a single location and cohesive branding. Many of these communities are associated with or are sold from a larger master-planned community. BFR SFD communities typically contain between 85 and 175 homes, with an average density of three to seven dwelling units per acre. Given these lower densities, SFD communities are predominantly located in suburban locations and are typically platted as individual residential lots. Units at SFD communities generally provide three or more bedrooms and are significantly larger on average than multifamily unit sizes.

**Amenities:** In addition to larger unit sizes, another key feature of BFR SFD homes is the spacious backyards, with many communities offering large, fenced backyards. Furthermore, higher-end SFD communities typically include a community clubhouse with a fitness center, pool, business center, walking trails, dog park, and playground. When communities are located within a larger master-planned community, residents of the BFR community are often allowed access to the broader community amenity center. Most SFD homes in BFR communities come with attached two-car garages. All properties provide at least washing machine and dryer hookups, though some properties include in-unit appliances with base rent.

**Market Audience:** The primary audience for BFR SFD homes is family households, typically in a transitional period after moving to a new market or during home construction. Mature professionals and empty nesters represent secondary market audiences. They are attracted to the maintenance-free lifestyle while also enjoying the enhanced space, privacy, and conveniences of a single-family home.

**Location/Setting:** BFR SFD communities are most prevalent in low-cost Sunbelt markets, including Texas, Florida, Georgia, and Arizona. The majority of SFD communities are located in greenfield suburbs, though a sizable number are located on the edge of established suburban neighborhoods. Increasingly, master-planned community developers and homebuilders leverage existing infrastructure in planned communities and sell sections of their landholdings to BFR SFD developers and operators.

**Competition and Positioning:** The primary competitive market for BFR SFD communities is inventory owned by institutional aggregators or small-scale investors. Given their larger unit sizes, higher absolute rents, and increased competition from the shadow market, BFR SFD communities are typically priced at a slight size-adjusted premium over garden-style apartments, but at healthy premiums over small-scale investor inventory, given the elevated level of execution, on-site property management, yard maintenance, and amenities provided by the BFR communities. Larger unit sizes and strong pricing typically yield monthly rental payments comparable to the monthly cost of ownership, assuming a downpayment ranging between 10 and 15 percent.

## PROJECT PROFILES: SUCCESSFUL BUILD-FOR-RENT SFD COMMUNITIES

### Pradera San Antonio, Texas

Product type: BFR SFD  
Developer: AHV  
Year built: 2019  
Units: 250  
Status: Stabilized

Pradera is a BFR SFD community in San Antonio. Its location within an established suburban area provides residents with strong accessibility and good schools. The primary target markets are maturing millennials and families seeking more space in an amenitized and well-executed setting.



#### Amenities

Amenity center	Resort-style pool
Lounge/café workspace	Dog park
Fitness center	Sports courts

Type	Units	Mix	Size (sf)		Asking rent		
			Min – Max	Avg	Min – Max	Avg	Avg \$/sf
3 BR 2 BA	89	35.6%	1,435 – 1,435	1,435	\$1,894 – \$1,894	\$1,894	\$1.32
3 BR 2.5 BA	138	55.2%	1,555 – 1,555	1,555	\$1,994 – \$1,994	\$1,994	\$1.28
4 BR 2.5 BA	23	9.2%	1,942 – 1,942	1,942	\$2,364 – \$2,364	\$2,364	\$1.22
<b>Total/avg</b>	<b>250</b>	<b>100%</b>	<b>1,435 – 1,942</b>	<b>1,548</b>	<b>\$1,894 – \$2,364</b>	<b>\$1,992</b>	<b>\$1.29</b>

Source: AHV Communities.

### Palomino Ranch Houston, Texas

Product type: BFR SFD  
Developer: Tricon  
Year built: 2019  
Units: 134  
Occupancy: Stabilized

Palomino Ranch is a new phase within the LGI Homes Painted Meadows community in Houston. Palomino Ranch is an example of a purpose-built single-family rental community leveraging the amenity program of a larger builder subdivision. Community features include expansive walking trails, parks with picnic tables, and a children's playground.



#### Amenities

Smart thermostats	Marble countertops
Professionally maintained landscapes	Select homes feature swimming pools
Fenced-in lots	Concrete patios

Type	Units	Mix	Unit size (sf)		Asking rent		
			Min – Max	Avg	Min – Max	Avg	Avg \$/sf
3 BR 2 BA	72	53.7%	1,414 – 1,658	1,482	\$1,625 – \$1,699	\$1,646	\$1.11
4 BR 2 BA	62	46.3%	1,844 – 2,134	1,891	\$1,725 – \$1,975	\$1,765	\$0.93
<b>Total/avg</b>	<b>134</b>	<b>100%</b>	<b>1,414 – 2,134</b>	<b>1,548</b>	<b>\$1,625 – \$1,975</b>	<b>\$1,701</b>	<b>\$1.10</b>

Source: Tricon Residential.

## INTRODUCTION TO AGGREGATED SINGLE-FAMILY RENTALS AND SMALL-SCALE INVESTORS

Until recent years, the industry was long dominated by small-scale investors and individual owners that still represent a significant majority of the market. Following the Great Financial Crisis, institutional investors entered the SFR market by forming large aggregation groups that built up portfolios of thousands of homes in diverse markets.

Housing availability within a target market often determines the size, bedroom count, number of stories, quality of finishes, and other rental home characteristics. Amenities are limited because homes are located in existing single-family residential suburban neighborhoods with few if any amenities. Markets are selected based on various criteria, including population growth, rental propensity, housing needs, and renter affluence, with target neighborhoods having a high proportion of middle- and high-income households.



CHRISTOPHER TODD COMMUNITIES

## INSTITUTIONAL SFR AGGREGATORS/ SCATTERED SITE

In the wake of the Great Financial Crisis, investment groups purchased packages of thousands of homes throughout the United States to build massive investment portfolios to convert into rental inventory. These groups use a disciplined property acquisition process of sourcing properties through broker channels and bulk portfolio sales. The industry is no longer in the startup phase and has now matured.

The continued scaling upward of the business is becoming more challenging as existing home prices continue to rise. Increases in investor returns now are driven by generating efficiencies in operations through marketing, revenue management, and home maintenance. Although groups are still acquiring single-family homes through traditional methods, the industry has also seen a shift into the development of purpose-built SFR communities to scale up the portfolio size efficiently. A new focus of operators is the formation of land acquisition and development teams to continue expanding while maintaining a geographically diversified portfolio. The aggregators intend to maximize revenue and absorption, so a location in strong school districts with access to lifestyle amenities is prioritized.

**Amenities:** Since aggregators typically purchase individual or clusters of homes, these portfolios do not usually benefit from shared community amenities. However, as aggregators shift to bulk takedown structures, a growing number of homes in these portfolios may have access to basic amenities, such as parks, playgrounds, and walking trails.

**Market Audience:** With most aggregators focused on larger single-family homes in areas with strong schools, families represent the primary market audience, though the market audience varies by location and market.

**Location/Setting:** Most scattered-site aggregators operate primarily in the Sunbelt, given the higher concentration of attainably priced homes, though many of these groups also have operations in the Pacific Northwest, Midwest, and Mountain West. Within these regions, houses are typically located in suburban neighborhoods.

**Competition and Positioning:** The primary competitive market for institutional aggregators is the shadow market, owned by small-scale investors or other SFR aggregators. American Homes 4 Rent, one of the largest publicly traded institutional SFR portfolios, lists its investment criteria, which include homes built after the year 2000, containing three or more bedrooms, valued between \$200,000 and \$400,000, and having renovation costs under 25 percent of the purchase price. On a size-adjusted basis, homes in these portfolios tend to be priced below purpose-built rental communities, given the greater variation in quality and fewer on-site amenities.

## SMALL-SCALE INVESTORS

Small-scale individual investors, often referred to as “Mom & Pop” owners, have long dominated the SFR business. Many investors got their start by renting out their residence when they moved on to a new home for either lifestyle or financial reasons. For some small-scale investors, the revenue generated can be considered either a source of supplemental or “passive” income or a full-time profession. More than 97 percent of existing SFR stock is owned within these small-scale portfolios, with nearly half of those proprietors owning just a single unit. Eighty-seven percent of the portfolios are 10 or fewer units. These homes essentially comprise the “shadow market,” the listings of individual rental homes on online marketplaces such as Zillow, and sometimes compete with the purpose-built SFD homes for a similar market audience.

The main difference between small-scale investment stock and aggregated portfolios is the diversity of inventory quality, because aggregators are much more stringent in their investment criteria. Small-scale investors also lack the economies of scale needed for professional operations and management, resulting in a diverse spectrum of maintenance support and renter experience.

**Amenities:** Homes owned by small-scale investors rarely benefit from community amenities unless located within a master-planned community or large-scale builder subdivision.

**Market Audience and Location:** Given the fragmentation of the small-scale investor market, target audiences vary significantly from urban to suburban neighborhoods by market and product type. Individual investors are widespread in every state.

**Competition and Positioning:** Small-scale investors face growing competition from institutional investors, including aggregators and BFR communities. On a size-adjusted basis, homes in the shadow market tend to be priced below both purpose-built rental communities and single-family aggregators, given the lack of amenities and often novice property management.



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## 4. Operating Metrics and Financials

As outlined in the previous sections, property characteristics, target demographics, and locations vary across the SFR product classifications, resulting in differing project economics. Development patterns in recent years help illustrate the possible supportable land values, operating expenses, and investor appetite for the evolving land use.

**Supportable Land Values:** Density is often the most significant variable driving achievable land values. As such, horizontal multifamily communities, which typically garner the highest density and price per square foot ratios, often are the most competitive for sites in suburban infill locations and able to pay land values comparable to garden-style multifamily communities. Given the variation in density and price positioning of BFR townhouses, these communities can often support land values in urban and greenfield locations, depending on the positioning of the community. BFR SFD communities often compete directly for land in suburban greenfield or fringe locations with single-family for-sale developers.

**Operating Expenses:** Compared to traditional multifamily products, SFRs have historically enjoyed lower turnover because of “stickier” occupancy, lower overall maintenance costs due to limited common areas, and more upside in asset values. As a tradeoff, SFR investments require higher long-term capital expenditure requirements and upfront rehab costs (for existing homes).

SFR portfolios are also more challenging to scale as opposed to a traditional multifamily portfolio. The scalability issue highlights one reason that aggregators have been transitioning in recent years to developing communities. The SFR industry’s operating margins have become more efficient in recent years, from an average net operating income (NOI) margin around 50 percent in the mid-2000s to an estimated 65 to 70 percent presently. This is comparable to medical office, self-storage, and multifamily operation margins.

Capital requirements are higher for SFRs than traditional multifamily assets for both developers and operators. According to industry analysis, the estimated capital reserve requirements are 15 percent of NOI for SFRs compared with 10 percent for multifamily communities. The composition of expenses for a typical SFR investment is weighted more heavily toward property taxes, insurance, and homeowners association dues than traditional multifamily apartment communities.

**Capitalization Rates and Transactions:** The SFR space has seen an influx in investment and transaction activity over the past 18 months. Historically, SFRs have achieved cap rates 20 to 50 basis points higher than garden-style apartments, but competition from potential investors has driven yields downward in the past year, with single-family cap rates now in line with traditional garden-style multifamily communities. This trend suggests the continuing demand for the SFR product among institutional investors, which could drive cap rates below some garden-style apartments in the near term as more investors look to add SFR to their portfolios.

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## 5. Implications and Conclusions

SFR housing has played an essential role throughout history in America, as large swaths of the U.S. population seek rental housing options other than high-density, multifamily properties. The trend toward purpose-built SFR housing has evolved over the past decade but has experienced exponential interest and growth over the past few years. As for many long-term trends, the outbreak of COVID-19 exacerbated and emphasized the need for a broader diversity of rental housing. Many of the key trends outlined in ULI's *Emerging Trends 2021* report, including the rise of working from home, a geographic shift to more affordable Sunbelt markets, growing demand in suburban neighborhoods, and the substantial and growing affordability crises, provide support for the investment thesis behind much of the growth in low-density rental housing.

The expansion and capitalization of low-density rental housing can deliver more housing at price points below the cost of purchasing homes within a respective neighborhood. However, there are some concerns that the institutionalization of the SFR housing market could contribute to adverse side effects if not appropriately mitigated by developers and local municipalities. Potential negative implications—and policy/development responses—follow.

**Impact on Affordability:** Many SFR communities are also denser than traditional SFD housing in the for-sale market, thus creating more housing options on less land. Although low-density rental housing can serve as an essential component in the broader spectrum of housing opportunities, a possibility exists that, in certain contexts, this model could exacerbate affordability concerns by competing for developable land with developers of garden-style apartments and entry-level housing by elevating land prices and, in turn, housing prices.

Potential policies and practices to mitigate this challenge follow:

- Some SFR developers are evaluating the opportunities to incorporate modular construction systems that could ultimately lower the cost of building low-density homes and providing more affordable housing options to households priced out of the for-sale housing market.
- Land use and zoning policies that increase the proportion of land area for which these residential typologies are politically and economically viable, thereby reducing some competitive pressure for sites.
- Facilitating the production of income-restricted units, the use of rental assistance (such as housing choice vouchers), or both, for a portion of units in a development to broaden the market of eligible tenants. This can be achieved from a regulatory perspective (inclusionary housing policies, anti-source of income discrimination laws) or proactive developer practices that reserve (or affirmatively market) units for rental assistance recipients.

**Impact on Equity:** Related to the affordability considerations, the higher price-point of some low-density rental communities could contribute to income segregation. Furthermore, in some markets, investor purchasers can create barriers to homeownership (with impacts on equity and economic mobility) if they can consistently outcompete individual first-time homebuyers for resale of existing homes.

Potential policies and practices to mitigate this challenge include

- Land use and zoning policies that allow housing typology diversity within a specific development/community, increasing the range of potential price-points and allowing for more mixed-income and/or mixed-tenure opportunities;
- Inclusionary/rental assistance recommendation outlined under the impact on affordability; and
- Creation of local “first look” programs that incentivize sellers who create a window of opportunity for first-time homebuyers to purchase existing homes.



### **Impact on Environmental and Infrastructure**

**Sustainability:** With the competition for land within suburban locations, the expansion of low-density rental housing could push entry-level housing further from employment centers, with attendant impacts on the environment and infrastructure needs.

Potential policies and practices to mitigate this challenge include the following:

- Land use and zoning policies that allow housing supply growth and diversity in established communities could relieve pressure on greenfield development.
- Land use and zoning policies should prioritize development locations proximate to current commercial/office/residential nodes or other community facilities, thus allowing a horizontal mixing of uses and incrementally mitigating transportation demand.
- Mixed-use development that includes neighborhood-serving retail should be allowed by right.
- New transportation infrastructure could be encouraged to integrate into the surrounding road/transit infrastructure network (i.e., grid integration/completion, minimizing dead ends/culs-de-sac, etc.).

While it is unlikely that low-density rental housing will solve the country’s substantial affordability crises, providing more housing alternatives to meet the needs of a diverse array of American households is a positive step forward.