

Build-to-Rent Housing Attracting Both Developers and Renters

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In the current housing market, the cost of home ownership is still relatively high even though in many areas home prices have begun moderating. As interest rates rise, fewer people will be able to afford to buy a home, resulting in more competition for rentals, whether apartments or single-family homes.

With this increased demand among renters, Build-to-Rent (BTR) housing presents opportunities and offers benefits for both developers and renters that are worth considering.

Build-to-Rent Increasingly Popular

Demographics

Many renters are students, single parents, or young families with children, and as such may not have the funds needed for the customary 10-20% down payment on a new home. They may have large student loans to pay off, and their incomes may not have provided them with the savings needed to make the down payment.

At the other end of the spectrum are renters who have retired and have paid off their mortgages, using the proceeds from the sale of their homes to support their retirement.

Lifestyle and Amenities

Regardless of the reason, there is currently a ready market for rental homes of various types. Apartments are attractive to renters, but do not offer the same benefits as single-family homes. While luxury apartment projects can offer amenities like swimming pools, clubhouses and fitness centers, they cost more than traditional, basic apartments.

Single-family homes, whether they are attached (like townhomes) or detached (like stand-alone homes) can offer a different lifestyle for renters, and are typically located in developments that have amenities similar to luxury apartments.

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The growing popularity of build-to-rent (BTR) homes can be attributed to a number of factors:

- Yards for kids and grandkids to play in,
- Garages,
- Storage space,
- A sense community,
- More options than apartments in terms of square footage.

Rental Rates

Interestingly, rental rates for homes in BTR communities are increasing faster than rental rates in apartment communities. These attributes all justify higher rents than apartments.

Build-to-Rent vs. Homes for Sale

Development

As the market for the sale of single-family homes softens, developers are increasingly considering the construction of BTR communities that are intended to be held by the developer for investment and rented out.

BTR communities have all the attributes of a traditional project with homes for sale (HFS). There is really no difference in the nature or scope of development activities involved in the installation of subdivision infrastructure and the construction of homes. Developers can therefore easily choose whether to develop a project as a BTR or an HFS community.

Financing

The financing available for BTR communities differs from traditional financing for HFS communities, since BTR communities are held for long-term investment.

In an HFS community, the developer has a shorter period of time to repay the loan using the proceeds of home sales.

In a BTR community, repayment takes longer because the rental of homes provides the revenue to repay the loan. A developer who typically builds an HFS community will need to shop around to get the best financing terms when deciding to do a BTR community.

Homeowners' Associations

BTR communities still have homeowners' associations (HOAs), but since the homes are not being sold, the developer retains control of the HOA. Local government codes typically require the HOA to own and maintain common areas, amenities, drainage systems and the like.

The developer funds the HOA budget using the rental income it receives, and the HOA hires a management company to administer and maintain the common areas. The same management company may be used by the developer to collect rents and maintain homes.

BTR communities can be gated, just like HFS communities, thereby offering another benefit to renters (privacy and enhanced security). This means that the internal roads are private and must be maintained by the HOA, leading to a higher HOA budget and increased rents to accommodate that.

Exit Strategies

A particular benefit of BTR communities is that the developer has more exit strategies, providing flexibility for its return on investment. If the developer wishes to get out of the home rental business, or needs some immediate cash, it can sell one or more homes to their renters, or to investors who want the rental income.

In some cases, institutional investors may wish to acquire entire BTR communities to add them to their portfolios.

As BTR communities gain more popularity, developers and renters may want to take advantage of the many opportunities and benefits that this type of housing offers.