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What Is the Build-to-Rent Sector, and Who Does It Serve?

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June 2023

There is not enough housing in the US to meet demand. For-sale residential construction declined substantially after the financial crisis and has yet to fully recover. And although the pace of construction has increased since its lows, it has not yet returned to normal, which, over time, has created an acute supply shortage. Parrott and Zandi (2021) estimated that the annual supply of new housing units was running an estimated 100,000 units behind new housing demand, with an aggregate deficit of 1.7 million units. Freddie Mac estimated that the US had a housing supply deficit of 3.8 million units (Khater, Kiefer, and Yanamandra 2021), while Rosen and coauthors (2021) estimated that from 2001 to 2020, we have cumulatively built 5.5 million fewer units than if the annual rate of production over the prior three decades had continued. The growth of the build-to-rent (BTR) sector, part of the single-family rental (SFR) market, is one potential source of new supply that can help close the supply-demand gap. But there has been little research done on the market and the product. To assess the potential of the BTR market, we must look at who BTR homes serve and determine what the business models in the market are today and what the policy implications are of this growing industry.

The build-to-rent sector, as we refer to it, is part of the SFR market in which homes are built to be rented, as opposed to acquired. The SFR market is dominated by small investors and "mom-and-pop" landlords who hold fewer than 25 properties and often own older properties; the average year built for all SFR properties is 1979 (Goodman et al. 2023). These properties are typically in neighborhoods and locations scattered across cities and metropolitan areas, while BTR properties are new-builds that are often together in a single community. BTR properties are typically owned and maintained by builders or institutional investors, or partnerships between the two. Because BTR homes are built for renters as opposed to homebuyers, they differ from other SFR homes. BTR homes are often part of master-planned BTR communities that share amenities such as walking trails, parks, or swimming pools, as opposed to the scattered-site model for general SFR properties, which typically do not include similar amenities. BTR homes are similar to ground-up multifamily development, except that they are horizontal instead of vertical and consist of larger units.

Given the recent and rapid growth of the BTR market, we wanted to better understand it. Through interviews with leaders in both the SFR and BTR industry, we set out to understand the size of the BTR market, the various business and financing models across the industry, the people and places that BTR homes serve, and the BTR industry's future.

Why Build to Rent?

BTR homes have attracted interest from institutional investors in single-family rentals, homebuilders, commercial multifamily developers, and the public.

It has become increasingly difficult for institutional SFR investors to source existing homes through traditional channels. Institutional SFR investors began to buy homes in 2012, relying heavily on foreclosures or other distressed sales as their source. SFR investors then bought homes through more traditional channels, such as the Multiple Listing Service. But as interest rates fell in 2019 and homeownership demand increased, it became increasingly difficult to source homes in desired locations with desired characteristics, and SFR investors began to rely more heavily on BTR homes. This movement accelerated during the COVID-19 pandemic and ensuing remote-work period, as households increasingly desired single-family homes that had home office space and outdoor space. This demand, in turn, has given BTR market participants more confidence that these properties will stay rented.

Although BTR homes may be more expensive up front, they are particularly enticing for SFR investors because of the reduced capital expenditure burden relative to typical SFR homes. The homes are new and require less maintenance, and there are efficiencies of scale in management, as the homes are often concentrated in one location. Moreover, the appliances and the air conditioning and heating systems are new and under warranty. And depending on the relationship between the builder and the SFR investor, most of the maintenance expenses may be covered. As a result of the demand and the economics, the BTR sector, which has always been a part of the SFR landscape, has grown at an exponential pace over the past few years and added to the housing supply.

BTR homes also offer an additional disposition strategy for homebuilders, who can continue to build homes during periods of economic uncertainty with the opportunity to rent out properties or sell the properties to an institutional single-family investor who will rent the properties, instead of selling to homeowners. This gives the builder an additional outlet for the properties and reduces the risk, which enables homebuilders to continue to build in economic environments with high or fluctuating interest rates, when potential homeowners have pulled back from the market. Contractual arrangements between homebuilders and SFR investors can allow the builder to build scalable, standardized floor plans that take advantage of volume deals on materials and products. It also allows for a steadier business flow with local construction trades that can keep those workers secured across the ups and downs of new for-sale cycles and give the builder an assured labor supply.

Commercial multifamily developers have also entered this sector, as it is close to their core business; building and renting multifamily properties provides some diversification. Similarly, hospitality and resort developers have made inroads in this sector.

BTR homes increase supply for a key, and potentially growing, part of the market: households with a desire to live in single-family homes but who do not want the responsibility of being homeowners, those who intend to live in an area for a short time, and those who cannot enter homeownership given their incomes in relationship to the carrying cost of a mortgage. The reality is that nearly 80 percent of homes on the market are not affordable for households earning median incomes or less to purchase, and this income threshold is lower in many metropolitan areas.[1]

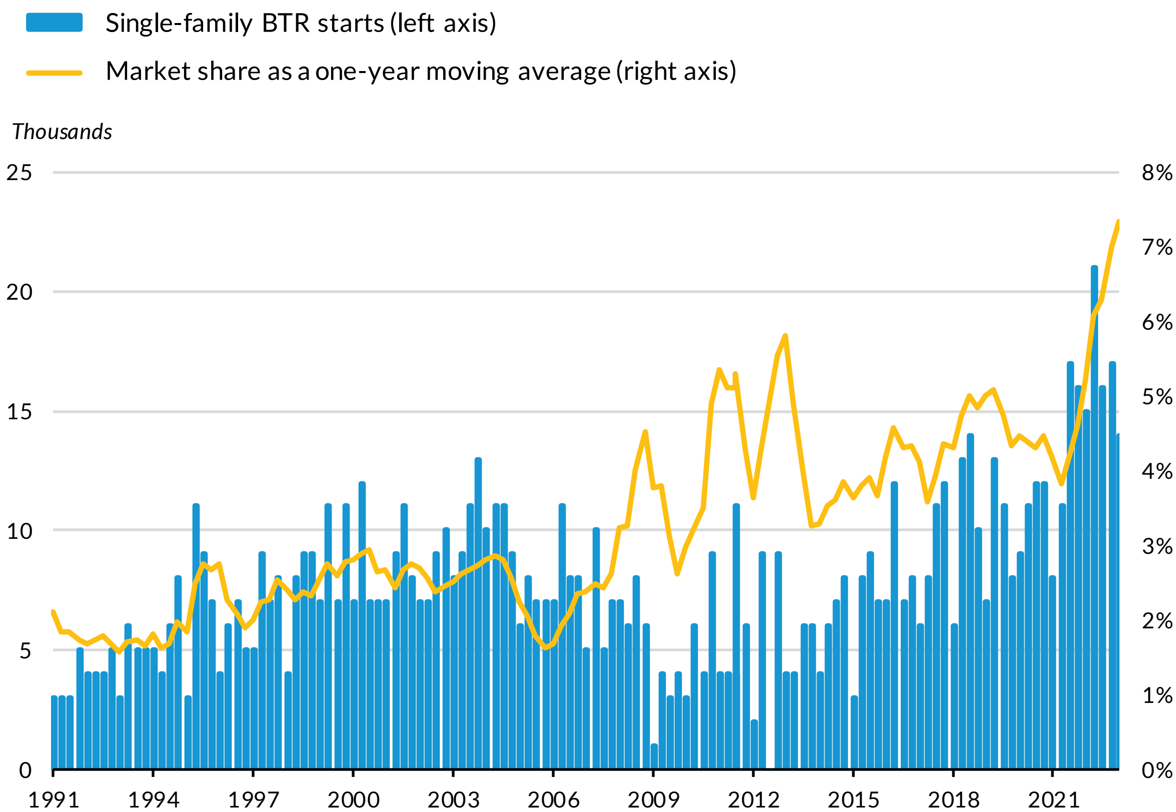
BTR by the (Rough) Numbers

It is difficult to size the BTR industry, but Yardi and the National Rental Home Council estimate that 131,000 BTR units were built from 2019 through the first quarter of 2023 (Q1 2023). Given the rapid growth in recent years, this represents the bulk of the outstanding BTR stock. This estimate is consistent with industry estimates that there are about 900 BTR communities averaging 135 to 150 units apiece. This is a tiny share of total housing units. For context, according to the 2021 American Community Survey, there are 127.5 million occupied housing units in the US, 44.1 million of which are rental units. There are 11.4 million occupied detached SFR units and 2.9 million attached SFR units, for a total of 14.3 million occupied SFR units. Thus, 131,000 BTR units represents just under 1 percent of outstanding SFR units.

But BTR housing is relatively new and has been increasing rapidly the past few years. It now constitutes a significant share of new construction. Rob Dietz, chief economist at the National Association of Home Builders, estimates that from Q2 2022 to Q1 2023, there were 68,000 single-family BTR homes started, compared with 52,000 in the previous four quarters.[2] Figure 1, where the bars illustrate quarterly starts, shows that the growth of this market has been rapid in the past two years. The average annual number of BTR starts from 1990 to 2020 (a 31-year period) averaged 29,000, compared with 68,000 in the past four quarters. To put this in a broader perspective, US Census Bureau estimates show 926,000 single-family starts from Q2 2022 to Q1 2023, making BTR starts about 7.3 percent of total starts (versus a 3 percent average from 1990 to 2022).

FIGURE 1

BTR Starts and Share of the Market



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Source: Robert Dietz, "Cooling for Single-Family Built-for-Rent Construction," *Eye on Housing* (blog), National Association of Home Builders, May 17, 2023, https://eyeonhousing.org/2023/05/cooling-for-single-family-built-for-rent-construction/; based on US Census Bureau quarterly starts data.

Notes: BTR = build-to-rent. This figure does not include homes built for sale or homes sold to an investor with an intent to rent.

But this estimate is grossly understated, as it includes only homes held by the builder for rental purposes. The number excludes homes that are sold to another party who intends to rent it out. That is, the estimate does not include homes that are sold to an SFR investor upon receipt of the certificate of occupancy, even when a partnership between a builder and SFR investor is in place from the beginning. In addition, this number does not include homes built for individual ownership that are sold to investors and operators as individual properties to be rented. The National Association of Home Builders, using industry surveys, estimates that another 5 percent of single-family starts are actually built to rent. This would bring the total share to 12 percent of new construction, suggesting close to 120,000 BTR starts in 2022.

How do we reconcile the National Association of Home Builders numbers with the 131,000 BTR units from 2019 when Yardi first started collecting data on this sector to early 2023? First, not all the units the National Association of Home Builders tallies as starts in 2021 and 2022 are completed. Units are in various stages of completion; in some cases, only the land has been purchased, and in other cases, construction has been started. Yardi and the National Rental Home Council estimate that in addition to the 131,000 completed units, another 112,000 are in various stages of development, including 31,000 prospective units (those committed to by the developer but not yet approved by local zoning or review authorities), 35,000 planned units (projects approved for construction), and 46,000 units under construction (projects that have broken ground).

In short, we expect continued rapid growth in the BTR market, though it will likely slow from the breakneck pace of 2022. Although today's high interest rates will provide some moderating influence, the land has been purchased and construction has already begun in many cases. For example, American Homes 4 Rent (2022) noted that it expected to complete 2,150 homes in 2022 but has a land pipeline of more than 15,000 units, up from 6,000 in 2019.

Indeed, over the past few years, the housing supply shortfall has become ever more apparent. While housing starts have increased, household formation has been even more robust. The result is that it is difficult for institutional SFR investors to purchase the number of units in their buy box (desired location and characteristics) at prices that are attractive, producing rapid growth in the BTR market.

How Does the BTR Market Work? Do All Market Participants Follow the Same Model?

In the BTR business model, new homes are being built to be rented. But different market participants employ BTR models in different ways. After talking to industry participants, we put together the following four categorizations: the vertically integrated model, the contractor model, the partnership model, and the one-off sale model. Many operators fit into more than one category. They may be representative of the vertically integrated model for some of their communities but also have partnerships, for example.

In the **vertically integrated model**, one organization builds, holds, and manages its own homes. Our interviewees suggested this model requires high levels of both capital and expertise in construction and building management. The advantage of this model is that the entity controls every aspect of the process, from land selection to the community layout to unit design and construction to the ultimate sale. This model is employed by American Homes 4 Rent, one of the largest and longest-tenured players in the BTR marketplace. Several large public builders have expanded to serve as rental operators, including D.R. Horton,[3] Century Communities,[4] and LGI Homes.[5] Some smaller private operators are also vertically integrated.

Under the **contractor model**, an SFR investor serves as the developer and operator and has a relationship with a homebuilder to contract and build homes. In this model, the SFR investor buys the land and finances the project. The builder plays more of a contractor role. The SFR investor often provides floor plans or other input for the homes and amenities but does not undertake the construction. Haven Realty[6] and Quinn Residences are examples of this model.

The **partnership model** is most often struck between an SFR investor and a builder. Although the terms differ from partnership to partnership, the builder typically buys the land and then partners with an SFR investor. The SFR investor agrees to buy all (or a major portion) of the completed development at a preset price or based on a preset formula. The SFR investor pays the builders a deposit up front, which assures the home builder that the deal will close. The deposit also helps the builder cover some of the construction costs and reduces financing costs. That is, the lender knows the deal has been presold, which makes financing less risky. The SFR investors typically make the final payments on the properties when the homes are delivered with a certificate of occupancy. The SFR investor may have some input regarding the size and design of the units or the types of amenities, depending on their relationship with the builder. SFR investors may also have some input in selecting the appliances, as they have negotiated volume discounts for their SFR business and have experience maintaining these appliances.

Several public builders have announced partnerships. In May 2021, Lennar announced a $4 billion platform for BTR homes, capitalized with equity from Centerbridge Partners, Allianz Real Estate, and others.[7] Toll Brothers and BB Living have a partnership that operates more than 30 BTR communities.[8] Pulte has announced a partnership with Invitation Homes to build 7,500 homes over five years beginning in mid-2021.[9] Taylor Morrison had a partnership with Christopher Todd Communities, though that partnership has since broken up.[10]

In addition to those three models, where homes are built to be rented, the BTR industry has given builders an outlet for properties built for sale that did not sell through traditional channels to homeowners. These homes can be sold to rental operators to become rental homes, albeit at a lower price. This occurred in 2022 because of volatility in the homebuying market; homebuilders saw demand evaporate as interest rates rose, and they tapped the BTR industry as another outlet for their homes. Under this **one-off sales model**, operators have no control over the home structures or available amenities. This model gives builders a bit more confidence and comfort to keep building homes during economic downturns because they will have an additional disposition channel. Sometimes, this model is a disposition strategy of last resort—these built-for-sale homes tend to be larger and hence more costly to build than BTR homes, and the builder does not realize the same profitability as it does when selling to a homebuyer. This strategy is not new; builders have been using this disposition strategy since well before the BTR boom, albeit on a more limited scale, as builders can profit from lower selling costs by selling to a single entity rather than to individual homebuyers.

Financing is slightly different depending on the operation. The vertically integrated model and the contractor model rely on acquisition, development, and construction loans, which are generally provided by banks. In the partnership models, bridge funding, often in the form of warehouse facilities from banks, may be needed between when the SFR operator takes possession of a large number of homes at once with a certificate of occupancy. If the construction rollout is gradual, no bridge financing is necessary, but investors may opt to use warehouse facilities. Once most of the homes are rented, SFR investors will generally opt for permanent financing so that the equity tied up in the project can be redeployed elsewhere. These homes can be included as collateral in SFR securitizations. In 2021, Freddie Mac began to pilot permanent financing in this space, though there are some restrictions on rents to qualify. In this pilot, 75 percent of SFR homes must have affordable rents or be affordable to households earning 80 percent of the area median income or less; waivers are considered for mission-based or nonprofit strategies. Loans where only 51 percent or more SFR homes are affordable for households earning 80 percent of the area median income or less will be considered on an exemption basis.[11]

What Do BTR Homes Look Like? Where Are They Concentrated? Who Are the Residents?

The three main types of BTR homes are horizontal apartments, townhomes, and single-family detached homes. Horizontal apartments, or "cottage style" homes, are typically small apartment-sized units on one floor and are one-to-two-bedroom homes attached at the sides. These units provide some of the benefits of single-family living without the price tag, as Yardi and the National Rental Home Council estimate these rents to be between $1,300 and $1,900 a month. Specifically, renters in horizontal apartments do not have neighbors above and below them, which reduces noise, and they may have access to a small yard, dog run, or other outdoor shared space and amenities. Horizontal apartments are typically built on single parcels of land and cannot be divided up for individual sale to other operators or, in the future, to individual owners.

Townhomes are larger than horizontal apartments and usually have several levels; most have two to four bedrooms. While a horizontal apartment in the BTR space may be between 1,000 and 1,500 square feet, a townhome is usually closer to 1,400 to 1,800 square feet, plus a garage, in many cases. Some townhome communities are built on single parcels, while others are on individual parcels that can be sold off individually. These homes are concentrated in the western United States, according to survey data from Yardi and the National Rental Home Council.

Finally, single-family detached homes are the largest BTR properties. In many ways, these homes are similar to homes built for sale, though they tend to be slightly smaller and often contain more durable finishes, such as laminate faux wood flooring and granite or quartz countertops, wider hallways, and standard appliances. The institutional operators of BTR homes are often willing to spend a bit more up front to save on maintenance costs. These homes usually have three or more bedrooms, are 1,800 to 2,500 square feet, and typically have their own garages and yards. At the very top of the BTR market are luxury SFR homes that are usually 2,000 to 3,000 square feet and have four or more bedrooms. According to Yardi and National Rental Home Council data, luxury single-family detached BTR properties are concentrated in California and Nevada, while more traditional single-family detached BTR properties are more concentrated across the Southeast.

In the BTR space, all these products run the gamut of basic to luxury based on size and finishes in the homes, the number of community amenities, and the locations they occupy. All BTR properties offer on-site maintenance, and most provide parking and privacy. BTR operators are increasingly incorporating smart home technology, such as alarm systems.

Amenities vary both by community size and by the developers' philosophy. Smaller communities may have a dog park and a walking path. Larger communities may have a clubhouse with a fitness center and a pool. Some developers believe amenity-rich developments command rent premiums high enough the offset both the initial costs and the operating costs, but other developers believe the house is the amenity. On all sides of the amenity debate, developers noted the importance of location as an amenity. Neighborhoods near good public schools and that have low levels of crime are attractive to BTR developers and operators, as families, often the target renters for BTR homes and communities, are drawn to such locations.

Our interviews with leaders in the BTR space indicated a shift among developers away from horizontal apartments and townhomes and toward single-family detached homes. Traditional BTR townhomes and horizontal apartments are now considered to be the lower end of the spectrum, while single-family detached homes and communities are often more luxurious and can pull in higher-income renters. Many of our interviewees attested that the significant growth of the BTR industry, particularly since 2019, has been driven by single-family detached homes. There has been rapid growth in single-family homes built at the top end of the spectrum. These luxury homes cost more have greater square footage and more amenities, such as pools, gyms, and coworking spaces.

The newer "luxury" BTR model, which data and our interviews suggest accounts for much of the recent growth in the space, has been built to attract renters that could afford to transition into homeownership but have decided not to. Many of these renters do not want to be stuck in one place, and they appreciate the flexibility that renting provides.[12] Some are not interested in the maintenance and investment that is required for homeownership and appreciate the opportunity to contact a landlord for maintenance and landscaping needs. In some cases, our interviewees noted that people are even renting single-family detached BTR homes as second homes or vacation homes.

Given such recent developments and changes in the BTR space, we know little about who BTR occupants are and how they differ from other renters. From their work and their knowledge of the space, our interviewees indicated that BTR renters, specifically those in single-family detached homes, are typically affluent (i.e., a high proportion earn more than $100,000 a year), are educated (have a bachelor's degree or more), are married and have children (and often pets), and tend to be older than the average renter. To validate this, we compared 2021 American Community Survey data on renters in single-family homes built in 2011 or later (our proxy for BTR homes) with renters in all rental properties, in SFR properties, and in SFR properties built in 1990 or later (a crude proxy for SFR properties owned by institutional investors) (table 1). We found that mean and median incomes of renters in single-family properties built in 2011 or later was highest of the groups. These renters had larger average family sizes and more children than all renters, though these numbers were both slightly lower than those in all SFR homes and all SFR homes built in 1990 or later. This likely reflects that some BTR homes are the smaller horizontal apartments. We also found that a slightly higher share of these renters is white, and a slightly lower share is Black or Hispanic, versus any of the comparison groups, but the differences were minor. Finally, as expected, we found that the median rent and the distribution of rents for BTR households was the highest among all renters.

TABLE 1

Household Characteristics, by Rental Type

	SFRs built in 2011 or later (BTR proxy)	All rentals	SFRs	SFRs built in 1990 or later
Median household income	$73,000	$43,500	$51,200	$63,000
Mean household income	$91,165	$60,764	$69,120	$81,479
Mean family size	2.56	2.16	2.69	2.85
Median number of bedrooms	3	2	3	3
Median age of head of household	39	42	43	41
Share of households with three or more people	45.6%	32.9%	48.8%	53.8%
Share of households with kids	42.5%	34.5%	48.6%	52.7%
Share of households that are Black	14.6%	19.0%	17.1%	16.2%
Share of households that are white	60.3%	49.6%	53.3%	52.8%
Share of households that are Hispanic or Latino	15.4%	20.5%	20.0%	19.8%
Share of households that are Asian American or Pacific Islander	4.0%	5.6%	3.9%	5.5%
Share of households that are another racial or ethnic group	5.7%	5.3%	5.6%	5.7%
10th percentile of rent	$750	$430	$500	$600
30th percentile of rent	$1,300	$750	$750	$1,000
Median rent	$1,600	$1,000	$1,100	$1,400
70th percentile of rent	$2,000	$1,400	$1,500	$1,800
90th percentile of rent	$2,800	$2,000	$2,200	$2,500

Source: 2019 American Community Survey IPUMS one-year samples.
Note: BTR = build-to-rent; SFRs = single-family rentals.

Rental apartments are often found in city centers, where horizontal space is scarce, so developers build upward. BTR single-family homes, however, are often part of full BTR communities, for which large open real estate space is needed. These communities usually have between 100 and 200 homes. Beyond the community amenities, our interviewees noted that the location of the BTR home is an important selling point, particularly to attract households who rent by choice. Renters want homes in communities that are safe but lively, close to good schools and neighborhood resources. Although a small minority of BTR communities are exurban and far away from cities and metropolitan areas, the bulk of these properties are suburban and are within a one-hour drive of a city center with shopping, restaurants, and employment nodes nearby. Horizontal apartments and townhouses are likely to be closer to the city, as their higher density allows for the use of infill space.

Our interviewees suggested that BTR communities of all kinds—horizontal apartments, townhomes, and single-family detached homes—exist all over the country, but there are some metropolitan areas where BTR homes have become particularly popular. But because of the difficulty of capturing data on BTR homes versus homes built for sale, it is unclear where most BTR communities are, and it is difficult to disaggregate by BTR type. Overall, our interviewees indicated that BTR operators are most interested in suburbs outside of growing metropolitan areas, those with high job growth that are attracting higher-income residents.

The data show that BTR development has been concentrated in areas where the starting land basis cost was low, such as affordable markets that were destinations in postpandemic migration patterns where people moved for greater housing affordability. National Rental Home Council and Yardi Matrix data show the most properties under construction in Texas, Arizona, Florida, North Carolina, and Georgia, while completed units are concentrated in Texas, California, Ohio, and Arizona. This is partially because of the flat open land that exists in or near major metropolitan areas in these states, partially because these are growing areas with influxes of residents, particularly since 2019, and because of local regulations that make it possible for developers to acquire land and build properties to their specifications with fewer local regulatory zoning and permitting hurdles to overcome.

Policy Implications and Conclusion

Data and our interviews indicate that the BTR market share is growing rapidly, but more research, data, and analysis are needed to fully understand how large the BTR market is. The BTR community, researchers, and policymakers would benefit from more data on who BTR renters are and in what kind of properties they live. This information could help drive market efficiencies and help policymakers determine the evidence-based policy pathways to develop BTR homes.

Anecdotally, we learned that BTR homes were initially designed with senior citizens in mind (i.e., small single-family properties that have one floor, are easy to manage, and have maintenance available), but the market has evolved, and newer, particularly high-end, properties are geared more toward younger households that are aging out of apartments and need or want more space but cannot afford to or do not want to buy. To better understand this market and its potential growth, it would be helpful to have data on who rents BTR properties versus other rentals.

The United States is experiencing a severe shortage of housing supply, particularly of single-family homes.[13] BTR housing is one opportunity to bring new capital and energy into the homebuilding space, which will increase the nationwide housing supply. Policies that encourage and allow more homebuilding overall are crucial to combating the supply-side shortage, and such policies will help the BTR market as well. Tax incentives and flexible zoning policies can promote more homebuilding, either for rent or for sale, and these policies should be tweaked to encourage more investment in affordable housing. By allowing greater density in new developments, localities can encourage newly built properties, including BTR properties, to be affordable, as the cost of the units will be lower. Given that land costs have increased more rapidly than the costs of structures themselves over the past decade,[14] BTR operators could produce smaller units, which can be more profitable in many locations, even when they can charge lower rents. Similarly, by allowing incentives such as low-cost financing (e.g., Freddie Mac's pilot) or tax credits for homes rented to low-income borrowers, SFR investors would be more likely to prioritize affordable rental housing.

That said, BTR homes are not the silver bullet for increasing housing supply, particularly affordable housing supply. Both the SFR market writ large, and the BTR market, are small pieces of the overall US housing market. One criticism that is often leveled against the institutional SFR industry is that it competes with and may crowd out those who seek to provide affordable housing for renters and potential new homeowners. Evidence of this for institutional SFR homes is mixed, and there has been no research specifically on BTR homes. Regardless, given how great today's affordable housing crisis and undersupply is, particularly relative to the supply of SFR and BTR homes, wider and more inclusive policies that change incentives and returns on affordable housing will be necessary to adequately address the lack of affordable housing in the United States. But at the margin, BTR housing helps.

Overall, the BTR model, while exhibiting a great deal of variation in terms of property type, financing, and business strategy, is here to stay. The model provides capital for a desperately needed increase in housing supply, and it offers an additional disposition strategy for homebuilders, which can help keep housing supply and starts stable during economic downturns that decrease homebuying demand. More available data, particularly disaggregated by BTR type, will help researchers and policymakers more fully understand the BTR models, their various constraints, and the opportunities to serve many different types of renters.

More research needs to be done to allow policymakers to better assess how much increased supply this growing sector can add. BTR homes increase supply, though likely not by the full amount of BTR activity, as some of the homes would have been built in any case. The critical question we leave for future research is how much of the BTR supply would have been built in any case, and how much simply reflects a reallocation from homes that would have otherwise been owner-occupied?

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Acknowledgments

This brief was funded by the Urban Institute. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

We are also grateful to participants in the build-to-rent and single-family rental market who took time to speak with us and share their knowledge for this project.

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