Opportunity Knocks on Single-Family House Rentals

As new single-family rental homes pop up, apartment developers and managers see new opportunities.

June 2018
By [Les Shaver]

During the past seven years, Mark-Taylor Residential has leased up 22 new rental communities in Arizona. Among those 22 lease-ups, it has opened garden-style communities, mid-rises and everything in between. However, none ranked as the company's fastest lease up to stabilization — that distinction belongs to a single-family home rental community.

Christopher Todd Communities on Greenway comprises 136 single-story detached homes in the suburban Phoenix city of Surprise. More than one-third of the homes were leased before they opened. The community generates 80 to 100 pieces of traffic per week.

“The traffic and leasing volume has continued through the lease up,” John Carlson, Mark-Taylor’s President, says. “We are now 94-percent leased after being open just over months. It has been very successful.”

The Christopher Todd Communities development is not the only new single-family rental development opening to strong demand. In Texas, AHV Communities has started pre-leasing in April the 92 homes in Georgetown and 83 in Pflugerville. Depending on the submarket rates, size of plan, rents for AHV homes can be at or above current conventional apartments. Rents include cost of two-car garage parking.

“For a 100-unit community, it is not uncommon for us to have 100 to 200 leads before the first house is built,” says Mark Wolf, Founder and CEO of AHV. “We are selling what people don’t have access to.”

While new single-family rental developments may not make sense in all parts of the country, in states such as Arizona and Texas, AHV and Christopher Todd Communities have had success renting new single-family homes.

Doug Brien, Co-CEO, Mynd Property Management, which focuses on management for owners of 50 units or fewer, describes this business model as “a hybrid of single-family and multifamily operations. One thing that sets them apart is that they are new homes.”

As Wolf and Wood’s stories show, this product type can be extremely popular. That success can mean opportunity for apartment managers. A word of caution: they have to know what they’re getting into; marketing, leasing, staffing and especially maintenance requirements are different.

Renter Nation

During the past decade, the number of single-family rentals (whether new construction or existing) surged. Recent data from RentCafe show that single-family rental volume grew by 31 percent between 2007 and 2016 while the multifamily housing sector increased by 14 percent. In 22 of the 30 largest cities, single-family homes for rent expanded faster than multifamily rentals.

Why is this the moment for single-family rentals? The answer is complicated. It lies partially with demographics and partially in the fallout from The Great Recession about 10 years ago.

“A lack of underwriting 11 years ago is what led to the take-off for single-family rental investors,” Todd Katler, Anyone Home, says, speaking at The Apartment Internet Marketing (AIM) Conference in May. “Once the foreclosures occurred, [individual and institutional] investors could buy good homes for 30 or 40 cents on the dollar.”

Scores of Millennials are reaching a point in life in which they could be considering buying a home, but more stringent lending requirements, along with their difficulty cobbling together for a down payment, have made that more difficult.

“People who are interested in single-family rentals often are those who wanted to buy a home, but are looking for alternative financing options,” Brien says, speaking at AIM. “Maybe a mortgage is not right for their lifestyle.”

Tina Mortera, Vice President of Marketing for Progress Residential, a firm that professionally manages single-family rental homes, based in Scottsdale, Ariz., says less than 2 percent of all rental homes in the United States are institutionally owned, according to Green Street Advisors.

“Who wants a 30-year mortgage today?” Mortera asks. “We’re in the ‘gig’ economy. People are seeking greater mobility in their lifestyles. That comes through renting.”

The pool for single-family rental occupants runs deeper than just Millennials. For instance, at AHV Communities, Millennials and empty-nesters together constitute more than 50-percent of residents.

“We have doctors and lawyers who don’t want to rent apartments,” Wolf says. “But they also may not want to own a single-family home and be tied down to assets that are illiquid. People have become wise to the potential of declining home values because of what they saw after the recession.”

No stranger to the housing business, Wolf is a former mortgage banker who arranged for billions of dollars of apartment financing before he started AHV. As he was putting those deals together, Wolf learned a lot from his clients.

“I was able to learn what makes deals work and how to reposition them,” he says. “First, I bought some apartments, and then I got into single-family homes because I thought the single-family play lent itself well to rentals.”

Todd Wood, CEO of Christopher Todd Communities, is an entrepreneur who made his money in organic breads and also built custom homes. After selling his bread company, he saw a need for what he called a “tweener” product — detached rental homes.

“When I first saw it, I thought that within three to five years this will become mainstream,” he says. “Because it is unique and has many benefits, renters will demand this product.”

To feed that demand, Christopher Todd Communities’ homes (inside gated communities) features small, fenced-in backyards with big patios, resort-style pools and spas, barbecue sets, event lawns and doggie doors. “Your pet can go outside on its own and you don’t have to have a dog walker,” Carlson says.

The fenced-in backyard offers other advantages.

With a fenced-in backyard, single-family rental homes can appeal to families with pets, Mortera says. “With a yard, we’re able to remove things such as breed restrictions, which is attractive to pet owners who might not be allowed to move into an apartment,” she says.

Wood says technology is helping to set his communities apart. The homes are being outfitted with 1 gigabyte of download and upload speeds and Amazon Echos and Fire Sticks. Additionally, the company installs interior cameras, doorbell cameras, keyless door locks, lighting, thermostats and a home alarm system that can all be controlled through a smartphone app.

“Our amenities are driven by our client base,” Wood says. “They match the needs of the demographics who we focus on. We have looked at all the amenities that Class A apartments provide and then aim to adapt those to single-family, rental-home living.”

AHV’s communities include a clubhouse, fitness center, pool, barbecue area, walking trails, a tot lot and dog park, among other things. The Pradera community includes a 3,400-foot amenity center.

AHV chooses a collaborative approach with their management partners, says Tina West, Chief Operating Officer for Capstone, which manages for AHV. Capstone has advised on area amenities, floor plan layouts, management and operations needs from a functionality standpoint and interior finishes as they relate to ROI.

“We let our property managers play a role in determining our design,” Wolf says. “With their recommendations, we will adjust specific communities to make sure we are serving our residents’ needs.”

Operational Challenges

Building single-family rentals and choosing amenities is only part of the challenge.

“The question with single-family rentals was how you maintain and operate them,” West says.

West recently had a client who purchased a portfolio of single-family homes not within a contained master-planned environment.

“They were not in the same area,” she says. “That created more of a challenge because you had more of a roving leasing environment — where you are leasing from a central office — and the maintenance was remote as well which required more coordination of teams.”

Successful operation of these communities requires multiple skills.

“Managing in the single-family rental housing space is a combination of Greystar and FedEx,” Brien says. “You need to have the standardized, consistent operations of a company like Greystar, but also a great handle on logistics, like FedEx has.”

In some cases, utilizing technology, such as residents submitting service orders with pictures or video can help, but logistics remain challenging.

“When residents are able to submit service requests by using pictures, video or live chats, we can troubleshoot the problem or help them to fix it themselves more easily compared to having to fill out a form,” Lucas Haldeman, Founder and CEO, smartrent, Scottsdale, Ariz., says, speaking at AIM.

If a single-family development transitions from a sales environment to a leasing environment, but the office space is not modified, this can create issues.

“In those cases, there was no true leasing office and clubhouse,” West says. “You leased out of a sales office. We had to modify those offices so that they could serve as leasing offices for sales offices.”

Specifically, these offices were not designed for the back office administrative needs for multifamily environments. In single family, the home is sold and the office closes. But in apartment rentals, the office needs to continue to support the community.

“In some case we had to open walls to create windows for visibility into the front customer area,” West says. “In other cases, we had to design the garage space for maintenance storage, key management and inventory.”

In purpose-built, single-family rentals, the leasing office, clubhouses and amenities, are designed for a leasing environment. And, as an added benefit, the construction teams are around as the project is built out in phases.

“From an operations standpoint, you benefit from the onsite construction team on the warranty side, servicing the homes [as they finish out the project], so you can benefit on the operating expenses for at least a year or two,” West says. “The turnover rate is typically lower with single-family rentals. You generally would have less maintenance on these types of properties than traditional apartment communities.”

Wolf expects staffing needs to change as his communities grow older.

“In five years, we will have to look and see where we are and how much work is needed to be done as the property matures,” he says.

That sort of uncertainty makes it hard for data-driven management firms to understand what it will cost to operate these communities as they age. Understanding the resources needed to fix single-family homes, which, unlike apartments, have one roof, four walls and one HVAC system per unit can pose a challenge over time.

“For service requests, one big difference between single-family and apartment maintenance is that single-family has a list of about 45 categories of things that need attention compared to 10 to 12 in multifamily,” Katler says.

Carlson says it might be years before Mark-Taylor can cull that type of maintenance and operational data it needs for single-family homes. In the meantime, he says he’s operating Christopher Todd Communities on Greenway with a headcount similar to that used for a traditional apartment community.

“We don’t have enough data to say that we will need more or less staff,” Carlson says.

Specific Needs

Data -- or lack thereof -- also hinders Carlson’s ability to determine how much traffic his advertising creates. For instance, the strong interest he has seen at Christopher Todd Communities on Greenway could let him dial back on his marketing spend, but he doesn’t have enough data to show what could happen if he pulls back in this area.

“This is the type of information we are used to seeing in the traditional apartment space,” Carlson says. “You need a specific pace to lease up in accordance [with] your investment objectives.”

Once prospects arrive in the leasing office, the selling process is also a little different with detached housing. Customers might want different things — such as more space and privacy within their surroundings — compared to apartment residents.

“We try very hard to put our fingers on the pulse of what’s important to the people who live in our communities,” West says. “Our goal is to anticipate their every need and then exceed that. We try very hard to make sure that our associates live this philosophy.”

Carlson says, “You have to touch on all of those benefits that you have versus a traditional apartment. From a training perspective, we have to make sure that our staff understands that this product is unique.”

Basically, leasing agents cannot sell these homes as they would a traditional high-rise. That said, West still regards traditional apartments, along with the shadow and for-sale markets, as her competitor. That said, she has seen single-family rentals earn $150-300 higher than the conventional apartment.

“You must make sure that your teams understand the value of a single-family home residence with backyards and garages and really relay to the customer that great environment,” West says.

If West can accomplish that, there could be a lot more homes on the way because Wolf has big plans.

AHV has 250 homes under construction in San Antonio. It has started offsite construction for 215 homes at New Braunfels. The builder is under contract on 69 in Leander and another 114 in San Antonio; both are set to close in July.

Ultimately, Wolf has bigger goals in mind — he wants to possibly turn AHV into a REIT.

“Our next goal is to be the next AvalonBay, MAA or Camden,” Wolf says. “I think there will be an appetite for a REIT-style public or private company in the near future.”

Wood’s success also has him thinking about expansion. Right now, he has five communities under construction with many more sites in the pipeline in Arizona and has designs on moving into other states.

“As we evolve and mature, you will see this concept and our brand move across the country,” Wood says. “We are generating what we can think is a new way for people to live. Our mission is to take this nationwide.”

Haldeman thinks the concept has legs. “The idea of a community made up only of rental-homes is interesting. It has legs. If it’s new product, and there is demand for it, it will succeed,” he says.

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Playing the Land Game

Having a vision is one thing. Being able to execute is another. As apartment veterans who lost land to condo developers in the last cycle know, it is tough to outbid for-sale developers when vying for the same plot of dirt.

The land-buying environment is hyper-competitive, both Mark Wolf and Todd Wood say they have strategies that differentiate themselves.

Late in 2016, Wood, who funds projects by tapping traditional bank financing, private equity, venture capitalists, high-net-worth individuals and C Corps, began purchasing land that had been zoned for multifamily and pushing it through the entitlement process. He looks for parcels from 13 to 30 acres in size where he can fit 13 to 14 homes per acre. He says he can get from 140 to 380 homes per site.

Wolf does not buy finished lots, instead choosing to develop land himself. By taking it through the entitlement process, he can save 20 percent to 25 percent on an overall deal. Wolf, who does his own construction, seeks land that is in good school districts, near major transport thoroughfares and is 15 minutes to 30 minutes from job centers.

Wolf competes against single-family developers in what has become a very competitive environment for buying dirt. The one advantage he has it that he will buy the entire parcel upfront, unlike the for-sale companies

“We come in and buy the whole plot upfront,” he says. “Most single-family developers take it down [buy pieces] quarterly.