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4 Reasons Building New Homes For Rent Could Work

Submitted by John Triplett on Mon, 10/03/2016 - 2:43pm



Building new homes for rent is going on in several selected locations around the county. In fact some communities of new homes for rent are starting to look more like an apartment complex based on a multifamily model but with single-family homes. How well this is going to work for the real estate investor depends on a

number of factors, [John Burns, CEO of Real Estate Consulting, writes](#). He cautions that build-to-rent could work in some areas but not everywhere.

By John Triplett

Rental Housing Journal

[Building single-family rental home neighborhoods](#) seems like a great idea, until you run the math, John Burns writes in a recent report.

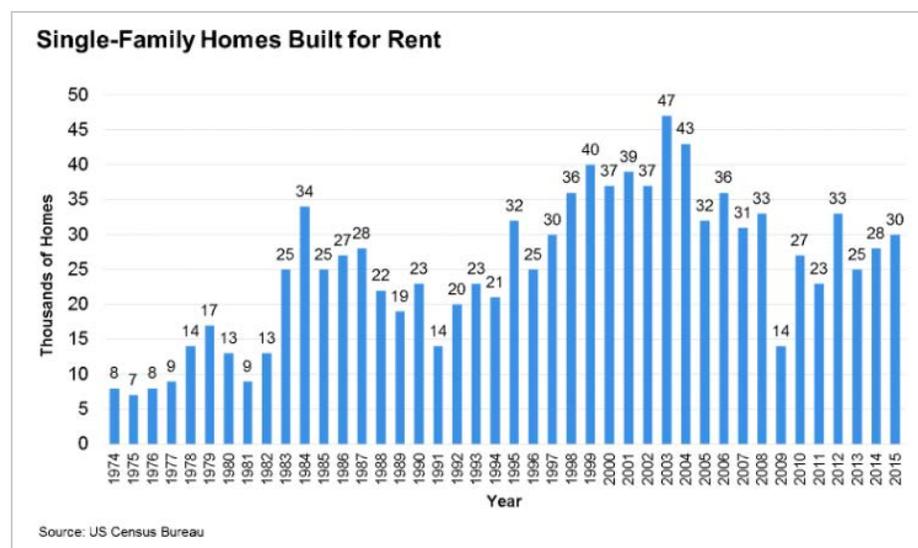
“Almost 12% of all households in the country now rent a single-family home. Certainly, a portion of these renters will pay a rental premium for a new home,” Burns writes.

However, there is a snag.

“While the rental demand remains strong, our home building and rental clients who have run the analysis have concluded that build for-sale homes usually create the most profits. Thus, most new home neighborhoods will continue to be for sale rather than for rent,” according to Burns.

Burns says there are exceptions, however, particularly when generating cash quickly is the priority. Burns says these include:

- Weak for-sale demand. For-rent communities make sense in areas where for-sale demand is weak. When a for-sale community might take years to sell out, a for-rent community can return cash sooner.
- Helping retail feasibility. A master developer may need to attract more residents quickly to help its new retail center thrive. Rental homes generally lease up very quickly and can bring needed customers to an area to help support a retail development.
- Additional segmentation. The developer might also choose to increase cash flow by selling a for-rent parcel to someone who won't build homes that compete with the for-sale homes in the community. This strategy generates cash and brings future homebuyers to the community.
- Significant relocation area. Often, relocating households prefer to rent for a while before buying. They want to learn more about the area, and might even want to wait for more certainty in their job situation.



“In summary, build for rent can make sense in some instances, but build for sale will continue to dominate the single-family home construction landscape. Do you agree or disagree? We would love to hear your thoughts. [Please take our survey.](#)” Burns writes.

New homes for rent

While Burns is pointing out what his consulting research shows, last year some homebuilders, such as Lennar, announced they are starting to build new home communities for rent.

[Lennar said in a release](#) last year that it has started building new homes for lease in Sparks, Nevada at [Frontera at Pioneer Meadows](#).

According to Lennar, [Frontera](#) offers 80 new single-family homes for lease offering six unique floorplans to choose from ranging from approximately 1,210 to 2,182 square feet of living space and two to four bedrooms plus private yards. Residents will benefit from brand new upgrades including front and backyard landscaping, gourmet stainless steel appliances with refrigerator and microwave, upgraded flooring, granite countertops, wood-style blinds, washer/dryer and attached two-bay garages.

“From the beginning, our company has always catered to our homebuyers and provided them with superior care and attention to detail that they deserve,” Dustin Barker, Division President for Lennar, said in the release last year. “We feel honored that we have been able to serve the needs of homebuyers throughout the country for so many years and are thrilled to now enter the rental market and offer even more

outlets for our customers than ever before.”

Homebuilders note that new rental house subdivisions have advantages over rental house portfolios amassed by investment funds such as Blackstone Group’s Invitation Homes, which reportedly has 48,000 single-family rentals, according to an article on [new home rental communities](#) in the Orange County Register.

“A lot of people want to buy a single-family home, but for whatever reason, they’re credit challenged,” Jeff Roos, Lennar’s Western regional president, told the [Orange County Register](#). “There’s a great deal of demand. There’s an underserved market.”

While those landlords have hundreds of homes spread throughout a metro area, the builders can cluster their rentals together, making them easier to rent out, maintain and repair.

Rental house starts represented 3 percent to 6 percent of all single-family starts in the nation since 2007, up from 2 percent to 3 percent in the prior 17 years, according to the National Association of Home Builders.

Building new homes for rent more like a multifamily model

Another builder has started new homes for rent in the Central Texas areas near Austin and San Antonio.

Building new, where homes would be in one community, also could eliminate logging miles back and forth to conduct repairs.

“Where we differ from the single-family rental home platform is we are a contiguous, cohesive community,” Mark Wolf, who launched AVH Communities, told [Builderonline.com](#) says. “We build brand-new from the ground up. We’re amenitized like an apartment, operated like an apartment, and managed and maintained like an apartment.”

The renters are expected to pay for base utilities and take care of the inside of the house. “We fix anything that goes wrong like lights and toilets,” Wolf said. AHV plans to target a broad spectrum of renters, from young couples to baby boomers. “We want to provide workforce housing for nurses, policemen, and firemen.”

If you have any questions, please contact John Burns at (949) 870-1210 or [you can reach him here on his website](#).

Resources:

[John Burns featured research](#)

[Home builders move into the build-to-rent space](#)

[Lennar introduces new home community for lease](#)

[Homebuilders are becoming landlords](#)

[One company trying Texas for build-to-rent](#)

[Lennar homes](#)

[Frontera at Pioneer Meadows](#)

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