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Renting the American Dream: Built-to-rent neighborhoods coming to Fort Collins, Loveland



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In a region where home prices keep rising and saving enough for a down payment can be challenging, a new housing trend targeting renters is popping up in Loveland and Fort Collins.

Build-to-rent communities, or BTR, cater to millennials, empty nesters, retirees and newcomers seeking the space of a single-family home with the flexibility of renting.

Growing families can get room to spread out; empty nesters the freedom to lock the door and go without worrying about the lawn or snow; and newcomers can take their time to learn about a community before buying.

What started in response to the 2008 housing crash has escalated in the last two years with renters' desire for more space at home increased during the pandemic.

According to RentCafe, about 14,000 BTR homes are expected to be built this year, about double the number built in 2021.

\$540,000 and rising: Fort Collins home prices reach historic high after 17.4% jump in 2021

A 2019 Zillow Group Consumer Housing Trends Report showed a single-family home was the preferred housing type among renters, providing the space, privacy and amenities that aren't always available in apartment buildings.

While rental properties are nothing new — some Fort Collins neighborhoods have organically become predominantly rentals, particularly around the Colorado State University campus

— a single-family neighborhood built from the ground up and intended solely for renters is something Fort Collins and Loveland haven't seen before.

About 53% of Fort Collins households were owner occupied in 2018 and 47% were renter occupied, according to the Fort Collins Housing Strategic Plan. It's likely the number of renters has increased since.

With home prices rising faster than residents' income, "the biggest challenge (for first-time homebuyers) is not affordability in terms of payment, it's the down payment," said Larry Kendall, co-founder of The Group Real Estate.

The national average BTR rental rate was about \$1,900 in September, an increase of 14% year over year, according to the National Apartment Association, about the same as a high-end apartment in Fort Collins.

Affordable housing: Housing Catalyst proposes adding 62 apartments to Fort Collins' affordable housing stock

Rental neighborhoods on the rise in Colorado

Colorado started to see build-to-rent neighborhoods in 2019 when NexMetro built its first project in the Denver area.

In 2020, builder DR Horton proposed Fort Collins' first BTR neighborhood as part of The Enclave at Redwood on 30 acres south of Conifer Street and east of Redwood Street in north Fort Collins.

The plan, which hasn't been approved yet, includes 242 dwelling units with a mix of four-, six-, and eight-plex multi-family units within a for-rent, professionally managed community property.

Single-family units are clustered on the same lot without individual property lines separating them. A homeowners association will take care of common areas.

Officials from D.R. Horton, a publicly traded company, declined to speak on the record about the project. Enclave at Redwood has gone through five iterations of design, according to the city's planning records. The project is expected to be on the Fort Collins Planning and Zoning Commission agenda April 21.

In Loveland, Villa Terra is expected to break ground soon on about 238 units on 26 acres within Kinston, a 630-acre project at Centerra on the east side of Interstate 25.

The rental homes are a new product for Centerra and McWhinney, said McWhinney co-founder Troy McWhinney. "It's a step up from multifamily apartments" and will come with attached garages, individual backyards and amenities such as a clubhouse.

The Loveland-based company is partnering with AHV Communities, one of the five largest developers of built-to-rent communities in the U.S., according to CBRE commercial real estate and investment firm.

AHV broke ground on its first BTR community in 2014 and has since opened at least eight communities, mostly in Texas. Its typical home is three or four bedrooms with an average square footage of about 1,600, CBRE reported in August.

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Complete details of Villa Terra have not been released. Peter Lauener, executive vice president of master planned communities for McWhinney, said Villa Terra would provide similar amenities of luxury apartment living.

Units are expected to be about 1,400 square feet, larger than your typical apartment. "There are a lot of people who have come to like apartments," he said. "But their families are growing and this is a great opportunity to get more space and move up from multifamily apartments."

Developer Goodwin Knight is also dipping its toes into the build-to-rent market in Ridgewood Hills' fifth filing. But rather than single-family, its product will be semi-detached cottages, said Bryan Kniep, vice president of planning and community development at Goodwin Knight.

It's an attractive product for people moving to Colorado or a specific community who don't know in which neighborhood they might want to live.

"It's an easy opportunity to transition into a new market and learn it without putting all your money into one home right out of the gates," Kniep said.

It's also popular with downsizers and retirees who still want a single-family home with little-to-no maintenance, he said.

While there are advantages to a built-to-rent community like luxury amenities, maintenance-free living and a sense of community, there are downsides.

The upfront costs of getting into a built-to-rent property may be considerably less than coming up with a 5% to 20% down payment for a house. But renters don't build equity in their home like they would as a homeowner.

There is no income tax deduction for rent like there is for a mortgage, and renters can't make as many interior changes as they might like.

Tough road for first-time homebuyers in Colorado

The idea for build-to-rent neighborhoods was hatched on a large scale after the great recession when Warren Buffet was asked what he thought the best investment was, Kendall said. His response was "single-family houses," but he didn't know how to do that at scale.

That was a time when banks were holding onto thousands of foreclosure homes they wanted to sell.

That led several Wall Street investment groups to buy houses in bulk from banks with the idea of flipping them. "It would be a gigantic flip," Kendall said.

The term "shadow inventory" was created to describe all these houses that would someday hit the market, he said.

"What the Wall Street investors realized was that these houses were great investments (just as Warren Buffett had said) and they figured out how to own them at scale," Kendall said. They decided to keep them and the "gigantic flip" never happened — none of the "shadow inventory" came online.

Now, investment groups want to own more and Wall Street is in the real estate industry in a big way, he said. Firms are investing in build-to-rent communities and buying portfolios of homes from buyers like Zillow which bought thousands of homes and is now selling much of its portfolio to investors.

Build to rent makes sense for investment groups and builders who typically make more money selling the homes in bulk than one at a time.

But, it's not good news for first-time home buyers, Kendall said. "It makes it tougher on them as they are now competing with Wall Street, as well as other buyers in a market with low

inventory."

New built-to-rent single-family rentals by year

2013: 1,740

2014: 3,900

2015: 2,950

2016: 4,020

2017: 5,180

2018: 4,180

2019: 4,640

2020: 4,960

2021: 6,740

2022: 13,910

Source: National Apartment Association

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