The Dangerous Rise of Build to Rent Communities in the USA

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Abstract: The rise of the Build-to-Rent (BTR) community trend in the United States is a subject of increasing interest to real estate professionals, investors, and academics alike. Build-to-Rent communities are not a new concept, but their popularity has been on the rise in recent years. Historically, single-family homes and apartment complexes have been the primary options for rental housing. However, several factors have contributed to the growth of BTR communities. Thus, this article analyzes the sustainability of build-to-rent homes and communities in the United States. It examines the distinct features characterizing these communities and contrasts them with conventional housing models. Through a comprehensive analysis, this paper contends that the surge in build-to-rent communities may not be as innocuous as initially perceived. Rather, it asserts that this trend warrants closer scrutiny due to ramifications for the government, the American populace, and the economy. Contrary to prevailing notions, the growth of build-to-rent communities emerges as a subject of concern, raising pivotal issues that necessitate attention, irrespective of its substantial trajectory. While existing research on the rise of build-to-rent (BTR) communities has extensively explored the economic, demographic, and urbanization factors driving their emergence, there remains a notable research gap about the long-term social sustainability and community dynamics within these housing developments. By investigating the underlying factors driving the ascent of Build-To-Rent communities, the study explores the long-term disadvantages of their proliferation.

Keywords: Build-to-Rent, U.S. Housing Market, Homeownership, Real Estate

1. Introduction

Historically, the rental market in the U.S. has been dominated by multifamily units. However, post the 2008 financial crisis, an observable trend began: more single-family homes entered the rental market as distressed homeowners turned landlords and institutional investors acquired properties for rentals (Mallach, 2011). Affording rent or mortgage in urban settlements is part of the main challenges faced by the American populace. As a result, the BTR sector has apparently gained broad attention in recent years and is providing a spectacular contribution to the problem of housing. BTR has also been observed to be an emerging trend in the real estate environment by offering a unique approach to housing solutions (Acheampong 2020). Several factors have contributed to the emergence of build-to-rise communities as a contemporary approach to housing development with the sole purpose of creating purpose-built properties within the urban settlement and well-defined communities.

In environments such as urban cities, the real estate market has gained a significant stance with the potential for a steady return on investment for the market. There has been a significant drop in the housing sector of the United States, recently the demand for “For-Sale” constructed houses has experienced a drastic decline and has yet to fully recover. Although the rate of resuscitation has increased compared to the dip, there has been no progressive spark, which has decreased the supply of housing. The growth of the build-to-rent (BTR) sector seems to be covering up the gap in the supply of new housing (Laurie and Zimno 2023).

Thus, this paper aims to explore the BTR phenomenon, its driving factors, implications for the broader housing market, and prospects. Preference of consumers due to the decline in availability and affordability of “For-sale” construction, low income, customization, flexibility, professional management, choice of housing preference, amenities, and supply-demand imbalance are the major factors contributing to the rise of Build-To-Rent. The most overwhelming desire of Americans, popularly referred to as the American dream, is to own a house. According to the Bankrate report of 2022, 74% of Americans refer to this as a part of the American dream. High cost, low inventory, and inability to make a down payment are factors that have reduced the percentage of young adults who are able to achieve this dream.

Overview of the Build-To-Rent Housing Model:

Build-to-Rent communities are single-family housing developments constructed explicitly for the rental market rather than sale (Finley, 2019; Nethercote, 2020). This model departs from the traditional American dream of homeownership, promoting a form of hybrid living which combines the privacy of individual homes with the flexibility and amenities of apartment living. According to Acheampong (2020), BTR communities may have emerged as a proficient solution to housing supply in urban areas, offering tenants long-term rental options and property owners stable income streams. However, as the BTR sector continues to expand, several
critical challenges remain unresolved. This research centers on the need to address sustainability concerns and enhance tenant satisfaction within BTR developments while considering various aspects, such as the impact on the dwellers, sustainability, consumer satisfaction like design, management, and environment as well as the long-term effect on consumers.

Build-to-rent, a housing model that involves the construction of purpose-built rental communities, has gained prominence in the United States in recent years. The origins of BTR can be traced back to a combination of economic shifts, demographic changes, and evolving consumer preferences in the housing market. These consumer preferences, whether driven by necessity or personal choice, have had a substantial impact on the prominence of BTR housing. The emergence of the build-to-rent housing model can be attributed to the aftermath of the 2008 financial crisis, which left a lasting impact on the housing market.

There are factors that contributed to the rise of the BTR model after the 2008 crisis. One factor is the decrease in homeownership rates caused by the crisis. Numerous individuals in America lost their homes during this period leading others to become more cautious about purchasing homes due to uncertainty. Another reason for the emergence of the model is the decrease in single-family rental homes following the crisis. Many homeowners who faced foreclosure had to transition into renting resulting in a demand for properties. However, there needed to be more family rental homes to meet this increased demand.

**Key Components of the Research Problem:**

Evaluating the enduring viability of Build-to-Rent (BTR) communities is crucial in deciding whether they should persist. A significant aspect of assessing this potential lies in considering whether the presence of BTR communities will ultimately facilitate homeownership for the American population. Understanding the preferences and needs of BTR tenants is also essential for optimizing their satisfaction levels. This research problem seeks to investigate the potentially dangerous effect of BTR on the tenants in relation to their satisfaction and the long-term positive effect of being able to afford and own a property of their own. Thus, evaluating the financial feasibility of BTR developments is vital for investors and property developers. This research analyzes the economic aspects of BTR projects, including initial investment costs, rental income potential long-term financial sustainability, as it affect the dwellers of these housing projects.

The effects of BTR on a community can vary significantly, it is important to point out its detrimental effect on the community, so careful planning, engagement, and oversight are essential to minimize the negative impacts and maximize potential positive consequences. Comparative studies can provide valuable insights into BTR development practices across different regions or countries. A comparative to help identify best practices, challenges, and opportunities for improvement in BTR projects. Ultimately, this research problem aims to observe the effect of the increasing built-to-rent community on the tenants by focusing on its affordability, long-term effect, increased rent, reduced home ownership, and displacement. Solving these challenges will encourage diversification and proper home planning which will not only benefit BTR developers and investors but also enhance the quality of housing and communities for home ownership, tenants, and the broader urban environment.

**2. Literature Review:**

Historically, the rental market in the U.S. has been dominated by multifamily units. However, post the 2008 financial crisis, an observable trend began: more single-family homes entered the rental market as distressed homeowners turned landlords and institutional investors acquired properties for rentals (Mallach, 2011). This concept stem from the progression of housing adjusting to changes in society, economy, and urban development patterns (Abidoye et al., 2022). Currently, BTR is a forward-thinking sector within the real estate field. It offers a range of housing options and amenities to tenants while also providing investors with the potential for an investment opportunity (Herbert et al, 2013, Nethercote, 2020).
Figure 1: Single Family Build for Rent Construction 1991-2021

Preference of consumers due to the decline in availability and affordability of “For-sale” construction, low income, customization, flexibility, professional management, choice of housing preference, amenities, and supply-demand imbalance are the major factors contributing to the rise of Build-To-Rent (Carvalho et al., 2023). With the increase in the global population, associated needs such as housing requirements are on the rise. Globally, there has been an increase in housing demand, with approximately 90% of 200 cities worldwide deemed unaffordable (WEF, 2019). In many of the world’s major cities, housing affordability and access is a pre-eminent urban problem, with housing systems widely seen as in a crisis (see Fields and Hodkinson, 2018; Szumilo, 2019). The US alone saw house prices rise by 11% in the last half of 2020 and the first half of 2021. A 22% increase was also seen in New Zealand during the same period. The COVID-19 pandemic has also contributed to the increase in house prices. The surge in housing prices, as highlighted by the International Monetary Fund with a staggering 5% increase in 23 countries during the final quarter of 2020, underscores the intensifying challenges faced by individuals seeking affordable housing.

2.1 Early History, Tenement, and Post-World War II Housing:

The origins of BTR can be linked to early urbanization when cities began to grow rapidly during the Industrial Revolution. In the 19th century, as industrialization brought more people to urban areas seeking employment, landlords began constructing tenement buildings. These buildings were often designed with multiple rental units, and they laid the foundation for the idea of purpose-built rental housing (Abidoye eta al., 2022).

There was a significant drop in housing supply immediately after World War II in many countries, including the United States and the United Kingdom. Governments in these nations put policies in place to encourage the construction of rental housing, leading to the development of large apartment complexes and suburban rental communities. There was a boom in housing which was stimulated in part by the introduction of easily affordable mortgages for returning members of the military which added to the expansion.

2.2 20th Century Emergence, Decline, and Resurgence of BTR:

The rise of multi-family housing projects and building apartments was first experienced in the mid-20th century in urban areas. These structures were primarily developed for rental purposes and marked a significant shift from single-family homeownership (Hilary, 2023). Towards the latter half of the 20th century, the emphasis in many Western countries shifted towards promoting homeownership through policies such as mortgage interest deductions and government incentives. This led to a decline in the development of purpose-built rental properties as homeownership became the norm (Housing 1929-1941: 2023). Towards the end of the 20th century and into the early 21st century, there was a resurgence of interest in purpose-built rental housing. This resurgence was driven by changing demographics, economic conditions, and lifestyle preferences. Younger
generations, in particular, were more inclined to rent for reasons such as flexibility, mobility, and financial considerations (Britta 2014).

2.3 Investment and Institutionalization of BTR:

Over the past decade, BTR has experienced a significant boom in various countries, including the United States and the United Kingdom. Real estate developers and investors have recognized the demand for high-quality, professionally managed rental properties. BTR developments are characterized by amenities, on-site management, and a focus on tenant experience. One of the notable trends in the modern BTR sector is the involvement of institutional investors, such as pension funds and real estate investment trusts (REITs). These investors are drawn to the stable income streams offered by BTR properties (Geoghegan 2022). Nevertheless, these investors have a singular objective: to generate profits for their organization and ensure a consistent stream of income, often at the tenants' detriment. They offer homes at elevated rental rates, placing a significant burden on tenants who must allocate a larger portion of their income towards rent, leaving them with limited savings for the future.

2.4 Build-To-Rent vs. Traditional Properties:

Considering the changing dynamics of the real estate market and the evolving preferences of modern renters, the popularity surge of BTR communities is hardly surprising. Referred to interchangeably as build-for-rent (BFR) or single-family rental developments, these communities represent a departure from the traditional homeownership model. They are purposefully constructed residential complexes tailored for long-term rentals, overseen by professional management teams or large companies (YURASOV et al., 2021). Typically, these properties consist of standalone units that mirror the aesthetics of homeownership, all while being administratively overseen by larger corporate entities.

However, as this growing trend continues, there are concerns arising about the downsides of build-to-rent communities. While they offer conveniences and access to amenities it's crucial to examine the obvious implications that this housing model may bring. The purpose of exploring these risks is to promote an understanding of the effects that this housing approach can have on individuals, communities, and the overall housing landscape. By providing people with perspective, we can empower them to make decisions. Investors can incorporate these risks into their considerations, stakeholders can take measures to mitigate any impacts and policymakers can develop policies that align better with community objectives (Ikpuri, 2018).

2.5 Understanding Built-To-Rent Homes:

A built-to-rent housing is a kind of housing that offers long-term rent to tenants. This housing is specifically built for this sole purpose. Diverse from the popular standard type of housing and similar to the multi-family kind of housing structure, the built-to-rent are designed to suit the individual desired kind of design for a long-term residence. There are different styles of generally interchangeable designs used to refer to this type of property, this includes:

- Built – to- Rent Housing
- BTR Homes
- Build-for-rent (BFR) homes
- B2R Homes.

Build-to-rent homes are a housing model within the real estate industry that involves an investor purchasing a portion of homes within a neighborhood to rent them out to other individuals or families.

These BTR homes commonly come in single-family homes, duplexes, row homes, or lot homes.

Build-to-rent homes differ from traditional rental properties or homeownership in several ways, some of which include consistency and standardization, the types of amenities and facilities available, professional management, and construction. Unlike traditional rentals that are often converted from existing houses or apartments, build-to-rent developments are specifically constructed for rental purposes (Pourret & Ibarra, 2023).

2.6 Trends in the Market, Architectural Styles, Amenities, and Demand for Build-to-Rent Housing

Build-to-rent (BTR) homes offer a range of choices when it comes to forms, sizes, styles, and prices. This diverse selection caters to market segments. Provides individuals with various options to suit their preferences. Some common types of Build-to-Rent housing include:

1. Single Family Homes: BTR communities often resemble neighborhoods. Each single-family home occupies its lot and is designed to accommodate a single family rather than shared living arrangements.
2. Duplexes: Duplex-style homes consist of two attached units that offer a housing arrangement suitable for various living situations.

3. Row Homes: Row homes are commonly found in areas as part of developments. They are built side by side in rows sharing walls with neighboring units, which optimizes the use of space.

4. Small Lot Homes: Small lot homes are single-family BTR residences constructed on lots that are smaller than usual. While standard lots usually cover around 5000 feet small lot homes are designed on lots ranging from 600 to 700 square feet.

The range of housing options in the BTR sector showcases how tenants’ needs and preferences are changing in today’s real estate market. When constructing BTR homes, the community constructions are made with the corporate organization profitability plan that is to provide maximum profit rate income to builders with designs cost favoring them. These buildings’ adaptability and attractive high-end amenities are quite appealing. They draw in tenants enticing them to invest their earned money in exchange, for a luxurious experience.

2.6.1 Gentrification Effect:
Gentrification is a complex and often controversial socio-economic process that involves the transformation of a community. It begins in a neighborhood often characterized by lower property values, economic disinvestment, and a predominantly lower-income population. Wealthier individuals or developers start to invest in the neighborhood by buying property, renovating existing structures, or constructing new ones, leading to increased property values. As property values rise, so do property taxes and rent prices. This puts financial pressure on residents, especially those with lower incomes. The influx of more affluent residents changes the neighborhood’s demographics leading to shifts in the local culture and character. It contributes greatly to the displacement of long-term residents and lower-income residents who can no longer afford to live in the area due to rising housing costs.

2.6.2 The Drawbacks:
One of the primary concerns lies in the transient nature of such communities. Unlike traditional neighborhoods characterized by stable, long-term residents, built-to-rent communities often witness a revolving door of occupants. This constant influx and outflow of individuals can hamper the establishment of robust social connections and a shared sense of belonging that are vital for fostering a strong community and togetherness. Frequent turnover disrupts social connections and hampers the development of strong community ties (Ikpuri, 2023). Residents believe they wouldn’t be there for too long so you may notice a lack of commitment to communal activities. This can bring about fragmented social networks, making it harder for residents to establish any meaningful relationship thereby leading to isolation and a lack of support systems.

When a large portion of residents are renters rather than homeowners, the sense of stability and long-term commitment to the neighborhood could be diminished (Taylor, 2020). Homeownership traditionally fosters a stronger sense of belonging and engagement within a community. The absence of homeowners with vested interests can lead to an environment where commitment to the well-being of the community might be compromised.

2.7 Financial Considerations for Renters:
The financial ramifications for both tenants and investors cannot be ignored. Renting in these communities can come at a premium compared to other rental options, which could strain the budgets of tenants, erasing or reducing the possibility of saving for home ownership. Rent prices in these developments tend to be higher compared to traditional rentals due to the presence of modern amenities and professional management services. (Yurasov et al., 2021). It is not uncommon to find amenities like a built-in gym, lounges, cinema rooms, high-level customer service as a result of an on-site operations team in case of maintenance issues, and lots more. With more amenities, comes more financial implications. It is heartbreaking to imagine the ordeal of a retired couple in their 70s, 80s, or 90s with not so much to go by every day, having to pay these high rents every month. Let’s also bring to mind the case of a working couple who is unable to work 60-70 hours a week to pay rent. Can it be said that individuals in the United States are living the American dream?

Moreover, the lack of equity-building potential for renters contrasts starkly with the wealth-building opportunities inherent in traditional homeownership. For investors, factors such as potential market saturation, unpredictable rental market fluctuations, and challenges associated with exit strategies pose risks that might impact the financial viability of these projects. Additionally, leasing terms might restrict tenants’ rights or limit their ability to modify the property according to personal preferences (Taylor, 2020). Maintenance costs are typically included in the rent but can increase over time due to general wear-and-tear or inflationary factors. It is
critical for potential tenants to carefully evaluate these financial considerations before committing to a build-to-rent property.

2.8 Potential Disadvantages for Landlords/Developers:

Operating build-to-rent communities also presents challenges for landlords or developers involved in these projects. Property management costs can be substantial when professional management companies are engaged with companies charging for both operations and logistics. (Pourret & Ibarra, 2023). Additionally, higher tenant turnover rates within these communities require continuous marketing efforts and leasing activities that add additional expenses. These expenses are never-ending. The BTR competes with local property owners by potentially reducing their number making it harder for smaller property owners to compete and maintain their rental properties.

Furthermore, compliance with regulatory requirements imposes burdens on developers who must navigate local zoning laws and permit processes specific to build-to-rent developments (YURASOV et al., 2021). These factors can significantly impact the financial viability of such projects.

2.9 Impact on Local Housing Market Diversity:

The proliferation of build-to-rent communities may affect housing market diversity, particularly in affordable housing options and variety in housing types within a given area. As these developments focus primarily on high-quality amenities and professional management services, they tend to cater to higher-income individuals or families (Taylor, 2020). The rise of large BTR companies can lead to market concentration, reducing competition and potentially giving these companies significant control over the rental market. Market concentration occurs when a few large companies dominate a portion of the market. This concentration can lead to consequences. When competition decreases and there are players in the market, companies may feel less motivated to lower prices or improve the quality of their products and services. As a result, consumers may experience prices and lower quality offerings. Additionally, companies with a market share may have the power to set prices without worrying about losing customers, which ultimately leads to increased costs, for both consumers and businesses.

3. Discussion

3.1 Housing Affordability and Access: the Miami housing landscape:

The City of Miami is a coastal Metropolis located in South Florida with a population of 442,241 as of 2020. In Miami, as in many other metropolitan areas, BTR developments have been on the rise to meet the growing demand for rental properties. The real estate BTR is a trending business in Miami, the construction of residential properties with the specific intention of renting them out as opposed to selling individual units. As of the time of this report, Rental properties in Florida offer a range of options, with prices starting as low as $300 to $500 per week for two-bedroom homes and going up to $1,700 per month for larger properties. Numerous rental properties in Florida boast beachside or oceanfront views and are situated in tranquil locations. The serenity and seclusion they provide are highly appealing, particularly to vacationers (Vrbo 2023).

It's important to note that the impact of BTR on tenants in Miami, as in any real estate market, is solely profit-oriented by the real estate agencies. Tenants should carefully review lease agreements, consider their housing needs and preferences, and weigh the pros and cons before choosing a BTR property or any other type of rental housing. Additionally, local regulations and tenant protections can also influence the tenant experience in BTR properties. This model is filled with potential downsides for tenants.

Limited Long-Term Stability:

In a BTR model, the property is owned and managed by a single entity. While this can provide some stability in terms of maintenance and management, tenants may have no control over their housing situation compared to owning a home. If the owner decides to sell the property or change their rental policies, tenants may be forced to relocate.

Rent Increases:

Build-to-rent (BTR) properties are often marketed in the real estate industry as end or luxurious choices. These properties usually offer a range of amenities, modern design elements, and a greater level of comfort compared to rental options. However, one notable challenge that arises with properties in Miami’s real estate market is the possibility of rent increases over time. As the cost of living continues to rise, tenants may face rent hikes that outpace their income growth. This disparity between increasing costs and stagnant income can strain tenants’ finances making it increasingly difficult to afford housing in Miami’s competitive real estate landscape.
As a result, individuals and families who initially opted for properties due to their comfort and amenities may find themselves struggling to cope with the rising rental expenses. This situation can lead to stress, requiring them to reassess their housing options potentially including moving to more affordable areas or downsizing to more budget-friendly rentals. This showcases the relationship between the appeal of features in rental properties and the enduring difficulties tenants may face when it comes to affording housing in Miami’s expensive real estate market.

**Limited Flexibility and Personalization:**

When it comes to owning a house the issue of flexibility in Build to Rent (BTR) properties becomes evident. BTR properties often come with stricter lease terms and policies. These regulations can restrict tenants in many ways. For example, tenants may find themselves with freedom when it comes to personalizing their living spaces or subletting their units. This situation can be a downside for individuals who highly value the ability to customize their living environment and desire freedom in their living arrangements. On the other hand, homeowners usually enjoy the liberty to personalize their homes, make structural changes, and customize their spaces according to their preferences and needs. This aspect stands out as an advantage of owning a home compared to BTR properties. BTR units are typically designed with a standardized, cookie-cutter approach to appeal to a broad demographic. This can result in limited personalization options and may not cater to tenants with unique preferences or needs.

**Potential for Gentrification:**

The BTR model can contribute to gentrification in certain neighborhoods, especially if developers focus on upscale properties. This may lead to rising property values, displacing existing lower-income residents, and changing the character of the neighborhood.
growth. Units in Downtown Miami and Brickell that would have rented for $2,000 or $3,000 a few years ago are now renting for potentially $5,000+. The residents moving out have not yet found comparable replacements yet more people are moving to the city so developers are pushing to keep pace as pricing pushes higher on average.” Said Demetri Demascus, Co-Founder of PROFILE Miami, Managing Broker of ALTARA Properties, and developer of Casa Azzura townhomes in Coconut Grove.

Miami, Florida, grapples with a housing deficit, evident in its job growth-to-building permits ratio of 20:2. This report points to increased housing rent in Miami, FL where residents have to pay high costs for rent in a limited housing environment. These citizens will find it hard to pay rent or sustain a long-time tenancy in the BTR community.

**Home Ownership Rate:**

The homeownership rate is determined by dividing the estimated total population residing in owner-occupied units by the estimated overall population. A housing unit is considered owner-occupied when the owner or co-owner resides in it, regardless of whether it is mortgaged or not fully paid for. A housing unit is classified as occupied when it serves as the current residence for the individuals or group of people living in it during the interview, or if the occupants are temporarily absent from the residence for a period of two months or less.

Source: US Census Bureau

**Housing rate in Miami:**

According to the Miami New Times, “It's no secret that Miami's housing market sucks for anyone without the means to purchase a shiny new condo, but the extent of how bad it's gotten for middle- and low-income families bears repeating. A recent report by the home services website Porch.com shows only two cities in the United States — Newark and Jersey City in New Jersey — have lower levels of homeownership than Miami, where only about 30 percent of homes are owner-occupied. Even New York City had slightly higher homeowner percentages than the Magic City”. The lack of affordable housing options in Miami forces many middle- and low-income families to contend with skyrocketing rental costs. This financial burden leaves them with fewer resources to invest in other critical aspects of their lives, such as education, healthcare, and retirement savings. This also leaves them without the possibility of ever owning a home as all their life’s savings go into paying high rents during their working years.

This uphill battle is further accentuated by the fact, as revealed through data provided by the United Nations, that a mere 13% of cities worldwide present viable options for affordable housing (UN-HABITAT, 2016)
This affordability challenge has had a substantial influence on the development of housing communities, sparking the exploration of various housing remedies. Among these, the Build-To-Rent Housing model has emerged as a potential solution. However, the effectiveness of this model as a sustainable solution warrants closer scrutiny. This research delves into the concept of Build-to-Rent communities, aiming to shed light on whether this touted 'solution' genuinely addresses the underlying housing concerns in the long term.

**Conclusion:**

Built-to-Rent presents its own unique approach to potentially or temporarily solving housing problems and has succeeded in its comparative approach by addressing housing design, construction, financial approach, and regulation. However, it is important to consider the detrimental effects of this process on the conservative life of Americans, and its long-term sustainability, this includes the much-preserved dream of owning a house before retirement which is known as a part of the “American Dream”, its lack of sustainability and the bogus cash backs it provides for stakeholders.

The biggest problem facing homeownership would be build-to-rent communities. The desire to own a home is widespread. Unfortunately, individuals are forced into build-to-rent homes due to them being unable to afford to buy a home. As a result, built-to-rent communities become more in demand. It is important to bear in mind every potential danger that this trend poses. The important questions that should be asked are:

- What percentage of the American population can afford to consistently pay for build-to-rent homes?
- What percentage of the American working population can afford to buy a home before they reach retirement age?
- What percentage of our population wants to purchase a home but is unable to due to the high purchase rate of homes? By answering the above questions, and acknowledging and addressing these potential dangers, stakeholders can work towards ensuring that the population of homeless individuals is brought to the nearest minimum.

**References:**


