How to Invest in Build to Rent (BTR) Real Estate

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Build to Rent developments have taken the real estate investment world by storm over the last half-decade. And it's an asset class that mega landlords have dominated.

Right now, institutional investors like Invitation Homes and Blackrock are buying up entire neighborhoods as quickly as they can, with the intent of owning them as renting properties.

Traditionally, mom & pop and small-scale investors have had a hard time competing with institutional dollars for new home builds.

And even though the mom & pop investor demographic has dominated the rental market by ownership volume, large players are beginning to cut into their market share.

Institutional capital has an advantage in this space. And while they don't want to overpay for an investment, they're less concerned about the price per unit than a smaller investor would be. One-off rental income losses are spread across a portfolio of thousands of properties.

And buying up entire neighborhoods or large portfolios of rental properties is a great strategy if you have deep enough pockets to compete in this space.

There is another way, however. Rather than competing with a much larger market of investors looking for existing rental properties, why not chase Build to Rent investment opportunities instead?

in this article, we will talk about how you invest in it. There's a lot of buzz around the product type, but not as much about how everyday real estate investors and busy professionals can actually get in on the action.

Why the market is ripe for the Build to Rent investment model

Even before the pandemic, the Build to Rent industry was in high demand from investors.

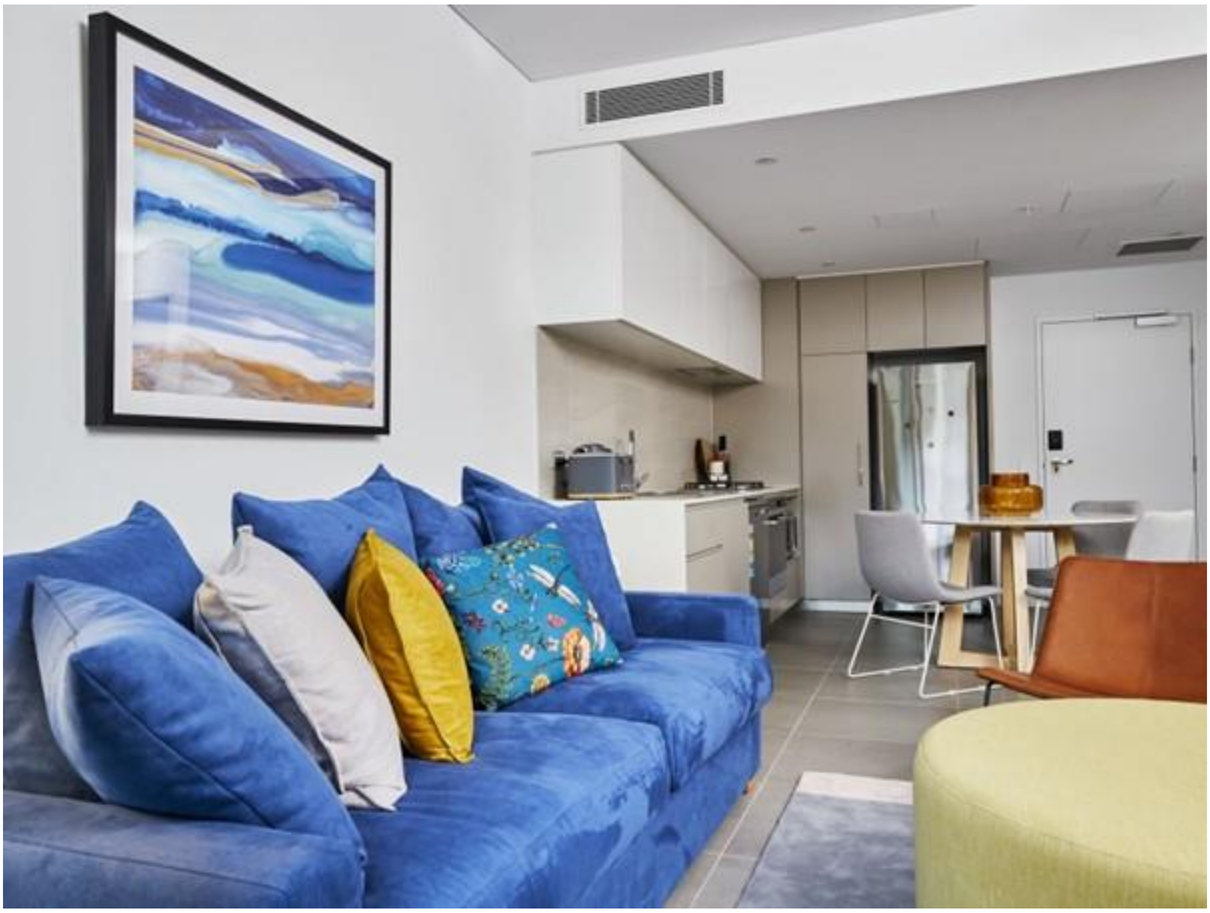
Since the Great Recession, housing starts have lagged pre-recession numbers. And the construction industry's prolonged labor shortage issues, pre-dating even the "great resignation," have further hurt the industry's ability to deliver new homes.

COVID, of course, further threw a wrench in the plans of homebuilders and homebuyers.

Remote work and employees' race to escape cities and settle into budding sunbelt metros have caused a significant shift in home demand in specific markets. And the pandemic’s impact on global supply chains has constrained home delivery even further.

This confluence of factors means that demand for new single-family homes dramatically outpaces supply in some markets. And the increased prices have made homeownership unaffordable to a larger swath of the country – even amidst a period of record-low interest rates.

So, the result is would-be homebuyers end up leaving the market empty-handed and dejected, and they turn to renting as a backup option.



How to invest in Build to Rent real estate

Barriers to entry for real estate investment have always been a reality, especially for eager investors who don't have the deepest pockets. Even investing in a modest single-family rental home requires either a W-2 or a solid personal financial statement and lots of cash.

Below we discuss several ways that you can invest in BTR real estate.

Invest as a limited partner in a Build to Rent project

Real estate syndication and crowdfunding have changed the game for real estate investors. It used to be that you needed deep pockets to buy a multifamily or commercial property, and you'd have to sell your soul to the bank.

And, of course, you can still do that today. But there are ways to enjoy the benefits of real estate ownership and passive income without the headache of active management or the need to commit large amounts of capital.

The investment landscape has substantially evolved over the last 5-10 years. And instead of simply dipping into their coffers to fund projects, developers are increasingly syndicating capital from private investors to help finance deals.

Even if a bank funds 80% of a project, a developer would need to put up 20% equity to complete a project and round out the capital stack. Real estate syndication allows limited partners to help fund that equity portion of the project through capital investment.

And as a limited partner, you'd likely be paid a return on your investment in addition to an ownership stake and claim to rental income.

Find a BTR developer and position yourself as an end buyer for one or several units

Editor's note: Most likely does not apply in the UK and Australia

Some real estate developers simply plan to develop land and sell it to a builder. Others may develop a property through construction, hold it through stabilization, and then sell it to an asset management company. Finally, some developers keep a property for 10-15+ years and manage it through eventual disposition.

The point is, every project and every developer have a unique set of parameters through which they analyze and manage deals – Build to Rent projects are no different.

It's not uncommon that developers will pre-sell Build to Rent homes to help with debt financing. It's also not unusual that a developer may retain several properties for their own portfolio and sell off the bulk of the development post-construction.

One of the beauties of real estate investment is getting creative. Suppose you position yourself as a viable end buyer for a Build to Rent project. In that case, you'll avoid having to compete with the open market and have a higher likelihood of success acquiring one or several rental properties.

Invest via a crowdfunding platform

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Real estate crowdfunding platforms like Crowd Street and Fundrise allow investors to invest in real estate deals online - Build to Rent projects are an available asset class offered by many.

Some of these platforms have enacted barriers for potential investors, though, like only offering opportunities to accredited investors or requiring substantial account or investment minimums.

These deals often oversubscribe quickly, and you're competing with investors on the open market in a public forum. But crowdfunding platforms are not a bad option for a relatively simple way to get started in investing in Build to Rent projects.

Invest in a REIT

Real estate investment trusts are companies that own and operate income-producing real estate. Investing in a REIT is similar to investing in publicly traded stocks. Single REIT stocks can be held, in addition to REIT ETFs and mutual funds, through a traditional brokerage or retirement account.

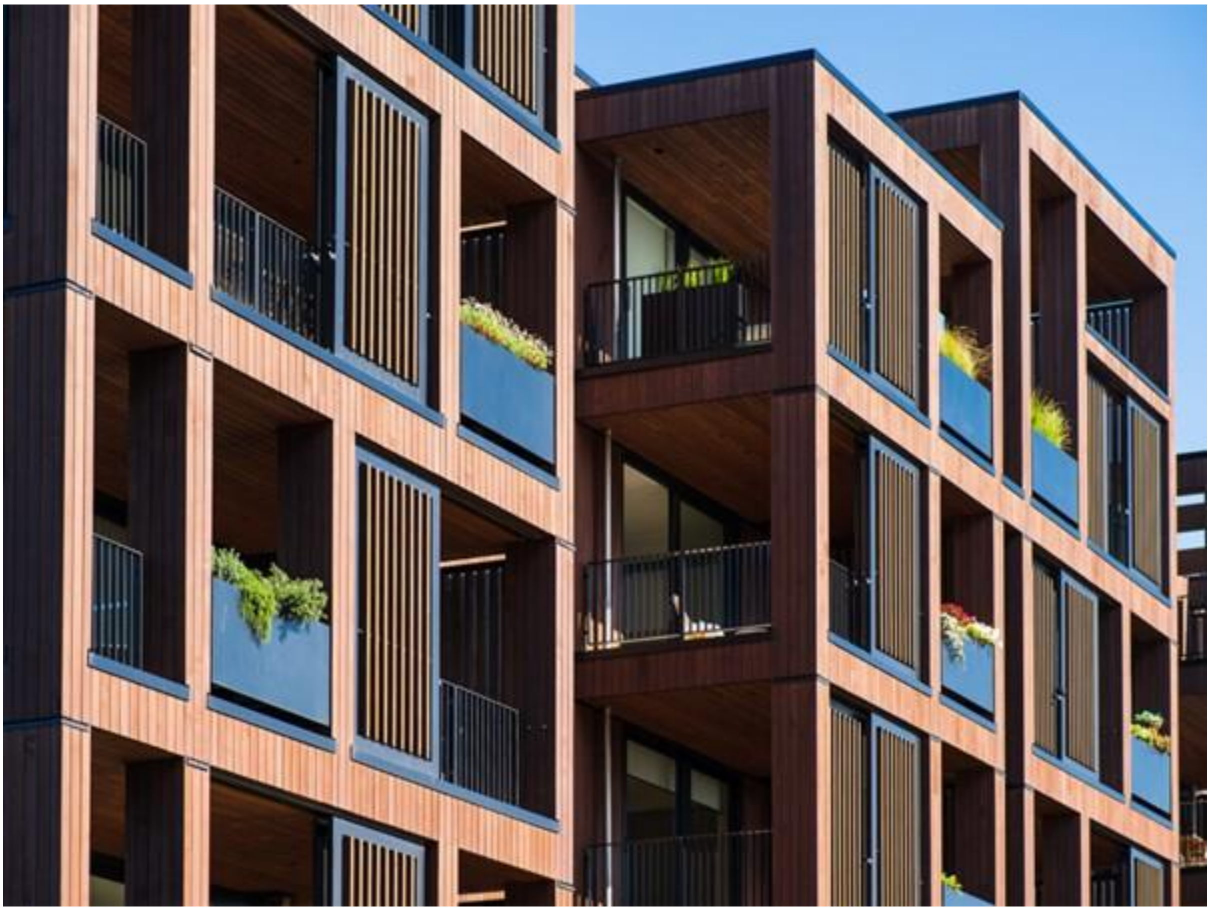
REITs don’t offer investors the benefits of direct real estate ownership, but they're a low-cost and low barrier alternative to begin investing in Build to Rent real estate.

Develop a Build to Rent community yourself

The most straightforward way to invest in BTR real estate is by developing it yourself. This could be the most profitable option for investors with the time and real estate development experience.

But in many cases, it's not feasible. Lenders are wary of funding speculative development projects where space isn't pre-leased or tenants already identified. So, a Build to Rent development may not be realistic unless you have plenty of equity, a strong balance sheet, and a track record.

However, some developers engage in the co-sponsorship of development projects.



For example, it's not uncommon that general partner development teams are formed to tackle more extensive, more complex projects.

If you're a developer that doesn't quite have the juice to pull off a project yourself, it may make sense to partner with another developer to mitigate some of the risk and responsibility.

Find a BTR project today

Don't' get discouraged by the number of institutional investors entering the Build to Rent market. There's plenty of money to be made in investing in real estate, and there's a continued demand for quality, affordable rental properties for eager tenants.

Planned residential new construction communities offer investors real estate that's built to last with minimal management headaches – in an asset class that only continues to appreciate.

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