



Opportunity for Investors in New Single-Family Homes

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“A lot of people want to buy a single-family home, but for whatever reason, they’re credit challenged,” said Jeff Roos, Lennar’s Western regional president. “There’s a great deal of demand. There’s an underserved market.”

Some homebuilders are stepping up to serve that market, with the number of U.S. houses built as rentals doubling from 2007 to 2012, numbers from the National Association of Home Builders show.

But housing consultant Burns argued in an August report that homebuilders are missing out on 10 percent of the housing demand, allowing existing homes to serve tenants who prefer rental houses to apartments.

Some don’t qualify for a mortgage, he said. Others want the flexibility of being able to move or would rather spend what they earn rather than save for a down payment.

“Clearly there is a subset of renters who will pay a premium to rent new,” Burns wrote. “If it works for apartment developers, why has there not been much attempt to build single-family homes for rent? Those days are now ending.”¹

What are "Build-to-Rent" Rental Properties?

The days of buying a cheap home that has been foreclosed upon have all but dried up in most markets. The foreclosure boom from 2008 to 2012 has subsided and home prices are now again on the rise. The rental market, however, is still a strong asset for investors and a new breed of property ownership is helping to build capital for housing industry investors.

The Build-to-Rent Concept

In certain markets new homes can be built which immediately cash flow as rentals while enjoying strong appreciation. While this is a rare occurrence, investors should evaluate these opportunities when they occur.

Some of the conditions required:

- Strong rental demand
- Low supply of quality rentals
- Affordable new construction

In our estimation, these conditions currently exist in the Port LaBelle, Florida market.

Why Invest in New Homes?

There are downsides to owning pre-existing rental homes that some new investors are not aware of before investing. The age of the home can be a big factor in whether or not a renter will sign a long-term lease agreement. Older homes can also be prone to faster rates of deterioration and renters can grow tired of continuous issues. The build-to-rent concept helps investors start off owning a new home at a more affordable price.²

Historical Traits of New Homes Versus Existing Homes

When compared to older, existing homes, newly constructed homes generally provide:

- less maintenance
- lower vacancy rates
- higher rents
- faster appreciation

Cost Savings With New Homes

A house that is newly built offers significant financial advantages to investors. The property insurance is often less expense each year due to condition of the home. More insurance companies are offering lower annual costs for homeowners insurance to owners of new properties versus older homes.

Because many older homes have aged appliances, replacements will likely be necessary for a new investor. Other systems needing repairs can include heating and air conditioning, windows, roof, and more. These costs may not always be calculated into the future goals of investors and will decrease passive income.

A home that was recently constructed can often demand a higher rent price because of the age and location. Being the first investor on the market to own a home before it has deteriorated could secure a “buy and hold” future.³

Calculations

Checking a Return on Investment (ROI) calculator shows the potential value of this concept. We used an ROI calculator⁴ from Rental Property Reporter and entered the following values.

Assumptions:

- Home Value: \$129,900
- Initial Investment: 10%
- Interest Rate: 5%
- Monthly Rent: \$1,200
- Land Value: 20%
- Property Tax: 1%
- All other entries were left at default values.

This returned the following results:

- Capitalization Rate: 11.09%
- Return on Cash Invested: 159.2%
- Projected 5 year IRR: 20.5%

Every investor is different, but many investors consider any capitalization rate above 8% or 9% to be an excellent opportunity.⁵

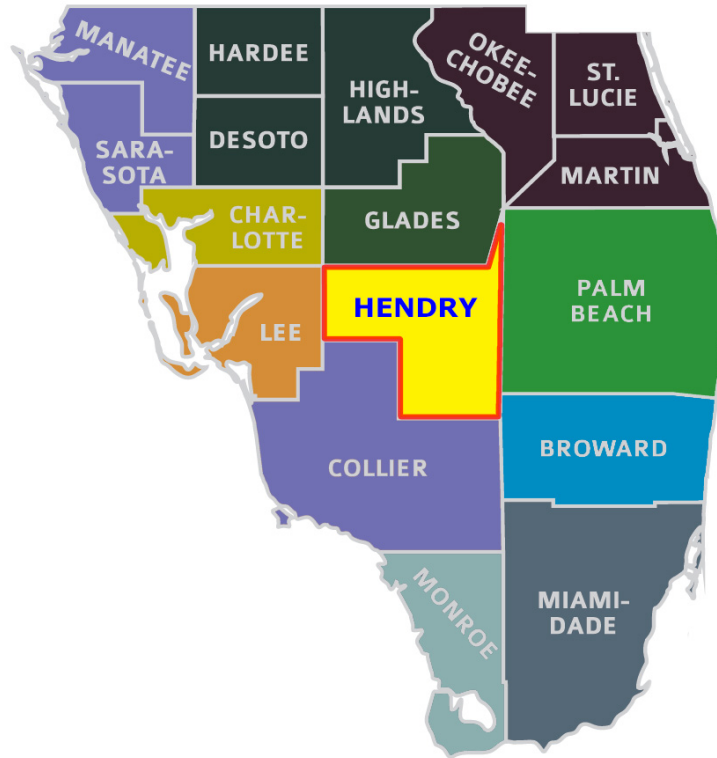
The Build to Rent Model is a Cash Earner

The positive cash flow found in build to rent houses is being enjoyed by large, institutional investors

and smaller, individual investors alike. While institutional investors may be able to purchase in larger quantities, individual investors are able to invest in the same products.

Why Port LaBelle?

Port LaBelle is located in Hendry County, which abuts the counties of Palm Beach, Broward, Collier, and Lee. As the coastal populations of Southeast⁶ and Southwest⁷ Florida expand and housing costs rise, more blue-collar workers are pushed inland seeking affordable housing⁸.



Proximity⁹

Major population, shopping, and dining hubs are located a short distance from Port LaBelle:

Fort Myers	29.6 mi
Naples	39.9 mi
Sebring	54.3 mi
Port Saint Lucie	74.3 mi
West Palm Beach	78.2 mi
Fort Lauderdale	82.2 mi
Sarasota	83.0 mi
Winter Haven	93.3 mi
Miami	93.8 mi
Tampa	111.1 mi
Orlando	130.5 mi

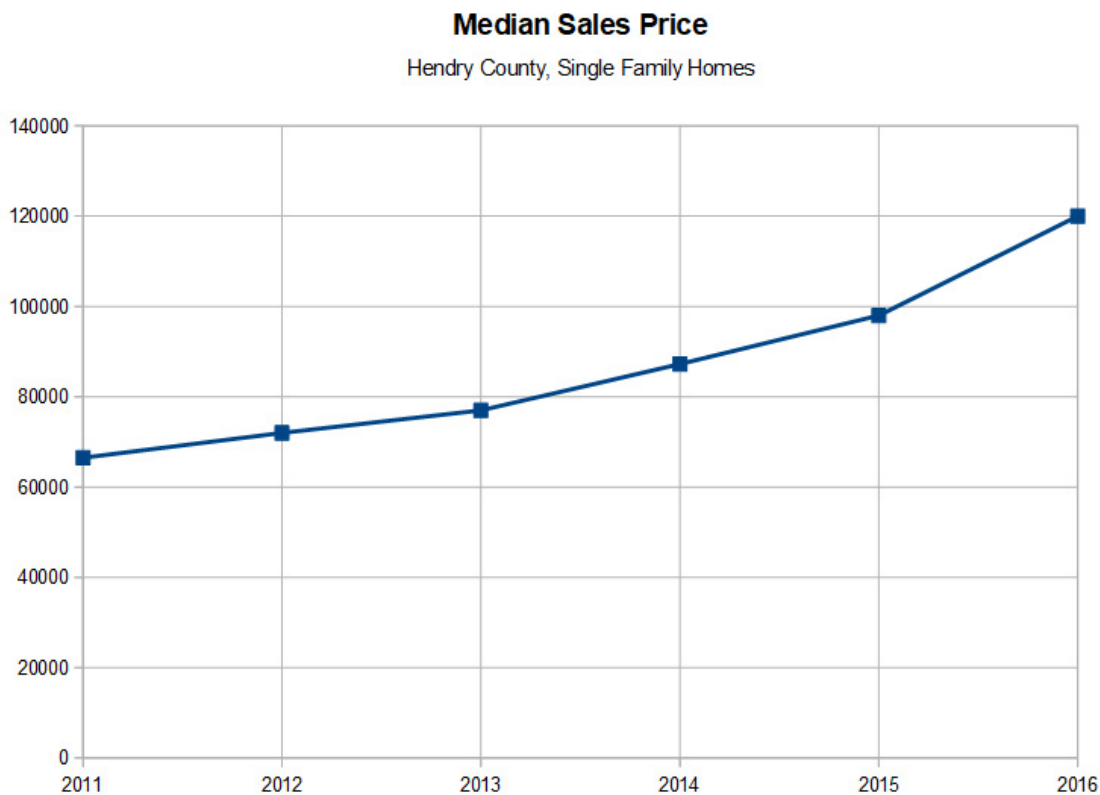
Nearby Populations¹⁰

The Port LaBelle area is conveniently located within driving distance of significant populations, most of which are suffering from affordable housing shortages.

Distance	Population
30 mile radius	364,457
60 mile radius	1,439,750
90 mile radius	5,711,209
100 mile radius	8,514,494

Housing Appreciation

According to the Florida Housing Data Clearinghouse¹¹, the median sales price for single family homes in Hendry County has increased by 80.45% from 2011 to 2016, an average of 13.4% per year.



Heartland Homes of Florida

Heartland Homes of Florida is building affordable, new single-family homes starting at \$129,900. These homes are being built on lots near the Port LaBelle Marina. Four different models are available and include granite counters, wood cabinetry, and full appliance package.¹²

Port LaBelle is situated along the Caloosahatchee River in rural Hendry County. Known as the Florida Heartland, the area is known for its outdoor activities and country lifestyle, yet is less than an hour's drive to the Gulf and less than two hours from the Atlantic.



According to the builder, Shawn Longaker, "Most areas around Southwest Florida simply have no affordable housing. We are changing that so the typical working family - as well as retirees - have an affordable option when it comes to their home. We chose LaBelle due to its relaxed, laid-back country lifestyle, its friendly local community, the proximity to local work and play activities, and the availability of affordable land. You can unwind and relax in your new home and still be less than 45 minutes from nearly anywhere you need to be."¹³

The homes are being built on existing lots, so development costs are kept to a minimum. Since they aren't being built using the typical "community" process, there are no homeowner's association fees to add to the cost of ownership. City water is available and lots are generally 1/4 to 1/3 acre in size.



More information is available on the [Heartland Homes website](#) or by calling 863-675-6800.

Additional Articles

Investors snapping up new homes for rentals¹⁴

CNBC

“I think the institutional capital is still looking at this very carefully, because there's a belief, and I support that belief, that it is a long-term hold and there's yield and there's appreciation to be had...”

“Miami-based Lennar, one of the nation's largest homebuilders, is experimenting with the single-family rental market itself.... This year [2015] Lennar took that one step further, opening its first single-family rental community in Sparks, Nevada.”

Single-family rental companies tap into new construction¹⁵

Construction Dive

“Buying new costs more up front than does rehabbing an existing home, but landlord companies save on maintenance and can set rental prices 5% to 8% higher.”

Foreclosures Dry Up and a Hot Wall Street Trade Gets New Look¹⁶

Bloomberg

“The bet behind the build-to-rent boom is that there are enough people who dream of the detached-house life but can't afford to buy into it. With tight mortgage standards and rising prices, and millennials putting off marriage and loaded up with student debt, that might not be a long shot.”

Developers Move Into Single-Family Rental Homes Sector¹⁷

National Real Estate Investor

“That will continue to support home price appreciation for investors in single-family homes. At the same time, a strengthening economy will support demand for single-family rental housing. “Landlords will have the ability to keep pushing rental rates over the next four years while realizing steady appreciation on their underlying asset...”

Welcome to Wall Street's housing market¹⁸

Inman

“Single-family rentals prove a winning bet”

Wall Street Firms Build A Single-Family Rental Giant¹⁹

Forbes

“Invitation Homes and Starwood Waypoint Homes are merging, creating a single-family rental behemoth and doubling down on Wall Street's bet that in post-housing-crisis America renting would become more popular. The combined company will own 82,000 homes in 17 markets and be valued at approximately \$11 billion.”

The 10 Best Sub-Markets for Investing in Single-Family Rentals²⁰

National Real Estate Investor

Florida claims 3 of top 10 spots for investing in single-family rentals

South Florida has affordable housing crisis, officials say²¹

Sun Sentinel

“Palm Beach County’s median home price of \$327,000 is unaffordable to 75 percent of households. The median home price is \$330,000 in Broward County, while the median price in Miami-Dade County \$320,000.”

“Palm Beach County’s median gross rent of \$1,900 is out of the reach of 80 percent of renters, according to Murray’s research. Average rent in Broward County is \$1,800, which is unaffordable for 78 percent of renters. The situation is worse in Miami-Dade County, where an average rent of \$2,175 is unaffordable for 89 percent of renters.”

Out of reach: Many workers can't afford a home in Southwest Florida as area booms²²

News-Press

“Lee County’s median income earners can afford a \$1,197-a-month rent or a \$171,225 house. Collier’s median income earners can afford a \$1,406-a-month rent or a \$203,350 house.”

“On a given September day, 7,030 homes were advertised on Lee’s multiple listing service and only 17 percent were affordable to someone earning the median household income, using the U.S. Department of Housing and Urban Development’s affordability standard.

“On the same day in Collier, only 9 percent of all MLS listings were affordable for median income earners.”

Affordable housing remains big issue²³

News-Press

“Rent rates for the Fort Myers and Cape Coral areas, exceed those in the largest metro areas, according to RentRange, averaging about 1,200 a month and climbing at 9 percent a year since 2013. There is a shortage of about 1,400 units in Cape Coral and that trend is expected to continue for another five years.”

Labor market report shows growing need for affordable housing in Southwest Florida²⁴

Naples Daily News

“In the county, wages grew 2.6 percent in 2015, while home prices rose more than 12.8 percent, following year-over-year increases of more than 20 percent in 2013 and 2014.”

In search of affordable housing, South Florida workers head (way) west²⁵

Sun Sentinel

“Over the past five years, Palm Beach County’s median has jumped 67 percent, while Broward has

seen a 72 percent price hike. Miami-Dade's median has more than doubled.”

“Many couples scraping by on modest incomes say they can't touch a new home because the vast majority of construction is geared toward well-to-do buyers.”

- 1 Jeff Collins, Orange County Register. [Homebuilders are becoming landlords](#). April 3, 2016. Retrieved August 28, 2017
- 2 JWB Real Estate Capital, [What are Build to Rent Rental Properties?](#) Retrieved August 28, 2017
- 3 Ibid
- 4 Rental Property Reporter, [Rental Property ROI Calculator](#). Retrieved August 28, 2017
- 5 Brad Thomas, Forbes. [Understanding Cap Rates: The Answer Is Nine](#). April 22, 2015. Retrieved August 28, 2017
- 6 Skyler Swisher, Sun Sentinel. [South Florida has affordable housing crisis](#). May 31, 2017. Retrieved August 28, 2017
- 7 News-Press Editorial Board, News-Press. [Affordable housing remain big issue](#). July 25, 2017. Retrieved August 28, 2017
- 8 Paul Owers, Sun Sentinel. [In search of affordable housing. South Florida workers head \(way\) west](#). April 23, 2017. Retrieved August 28, 2017
- 9 Geobytes, [Distance Calculator](#). Retrieved August 28, 2017
- 10 Missouri Census Data Center. [Circular Area Profiling System](#). Retrieved August 28, 2017
- 11 Florida Housing Data Clearinghouse. [Housing Profile, Hendry County](#). Retrieved August 28, 2017
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- 23 News-Press Editorial Board, News-Press. [Affordable housing remain big issue](#). July 25, 2017. Retrieved August 28, 2017
- 24 Laura Layden, Naples Daily News. [Labor market report shows growing need for affordable housing in Southwest Florida](#). February 8, 2017. Retrieved August 28, 2017
- 25 Paul Owers, Sun Sentinel. [In search of affordable housing. South Florida workers head \(way\) west](#). April 23, 2017. Retrieved August 28, 2017