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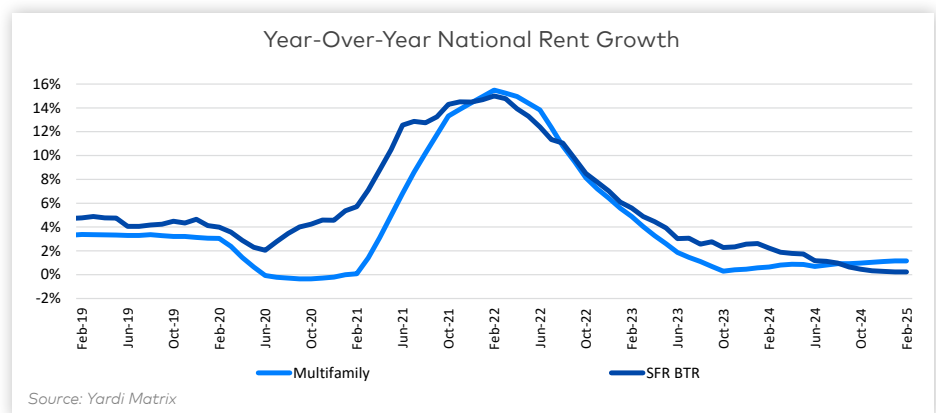
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# SFR Institutions Navigate "Growing Pains" Stage As Acquisition Pace Slows

The institutional single-family rental market has slowed its growth rate over the past two years, but property fundamentals remain strong. The national occupancy rate has declined during that time, but it remains solid by historical standards. SFR rent growth has decelerated in a similar trajectory to multifamily, but that comes after a long stretch of above-trend increases. Demand remains robust due to demographics and social trends that are likely to remain in place for years.

The segment's growth has shifted since 2022, from purchases of scattered-site properties to build-to-rent projects and partnerships with homebuilders. Acquisitions of BTR communities with 50 or more units over the last two years slipped from the 2022 peak of \$3.0 billion, but the segment produced a solid \$2.2 billion in transactions in 2024. Transactions remain concentrated in high-growth markets such as Phoenix, Atlanta, Charlotte and Denver, where the bulk of SFR-BTR stock is located. Buyers are mostly private companies or REITs, but some affordable housing organizations are active, as well.

Formed in the wake of the global financial crisis, the institutional SFR-BTR market is in a "growing pains" stage, wrestling with issues that include acquisition and development strategies, expanding geographic concentration beyond its current regional scope, and best practices in property management.

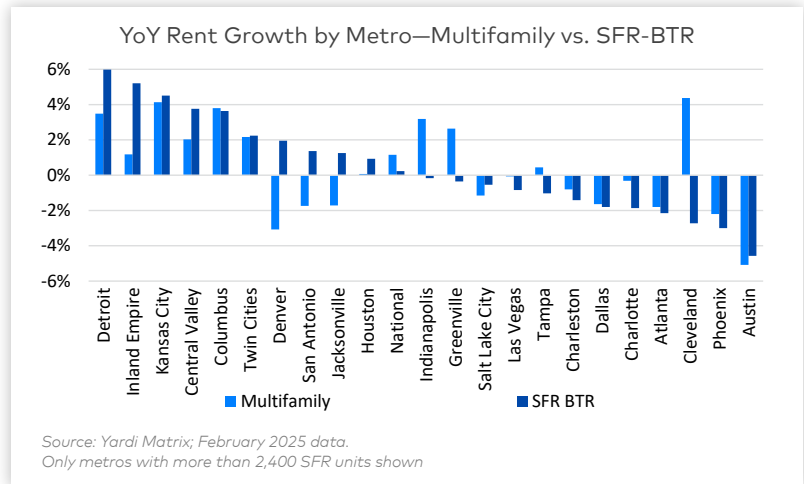


## Healthy Fundamentals

SFR-BTR fundamentals are healthy, even though rent growth has decelerated in line with rapid growth in multifamily stock and—to a lesser extent—diminishing affordability. Nationally, BTR rents have flattened in recent months after peaking at 15.0% year-over-year in the spring of 2022. Year-over-year rent growth was down to 0.2% nationally as of February, according to Yardi Matrix's database of SFR-BTR properties with 50 or more units.

Like multifamily, SFR-BTR rent growth depends to a large degree on location, with the Midwest outperforming other regions as of early 2025. As of February, the Midwest had claimed five of the top nine metros for SFR-BTR rent growth in the Matrix ranking of top 30 markets, which was led by Detroit (6.0% year-over-year), the Inland Empire (5.2%), Nashville (5.1%), Kansas City (4.5%), Columbus (3.6%), Chicago (2.3%) and the Twin Cities (2.2%).

The markets with the weakest year-over-year SFR-BTR rent growth as of February include Dallas-Ft. Worth (-1.7%), Charlotte (-1.9%), Atlanta (-2.2%), Cleveland (-2.7%), Phoenix (-3.0%), Miami (-3.1%), Raleigh-Durham (-3.9%) and Austin (-4.6%). Although BTR communities don't directly compete with multifamily, many of these mar-

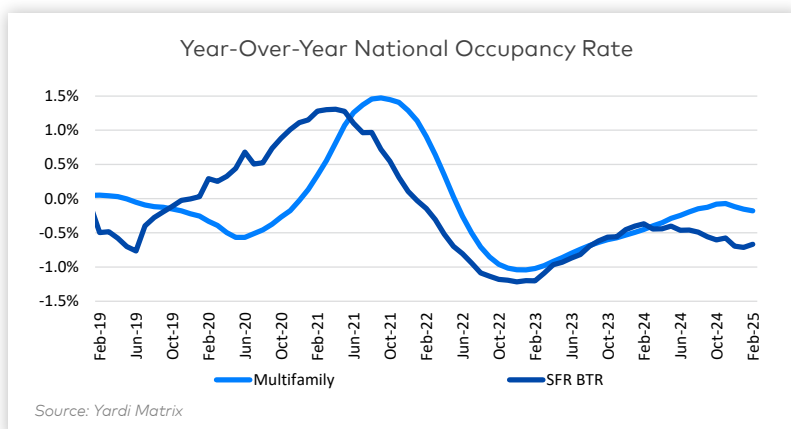


kets have a temporary surplus of rental housing due to robust new apartment supply. That has provided renters with more options and limited rent growth in the SFR-BTR segment.

The amount of SFR-BTR stock remains relatively small and is not distributed evenly across the country. Only eight metros had as many as 5,000 units in SFR-BTR communities with 50 or more units as of February. Geographically, the market remains concentrated in high-growth Sun Belt locales such as Phoenix (17,438 units), Dallas-Ft. Worth (14,481), Houston (9,209), Atlanta (8,730), Columbus (7,600), Kansas City (6,299), Salt Lake City (5,450) and the Inland Empire (5,109), per Matrix.

Regardless of geography, demand for renting single-family homes has been strong and likely will remain robust for demographic and lifestyle reasons. The national SFR-BTR occupancy rate was 94.7% as of February. Although the rate has dropped 70 basis points year-over-year and is down from a 97.0% peak in 2021, it has been steady in recent months and is unlikely to drop much further.

Demand for SFRs comes from multiple sources, including renters with children or pets that want more space than is afforded by an apartment, divorcees who have children and/or want to retain the types of homes they lived in pre-divorce,

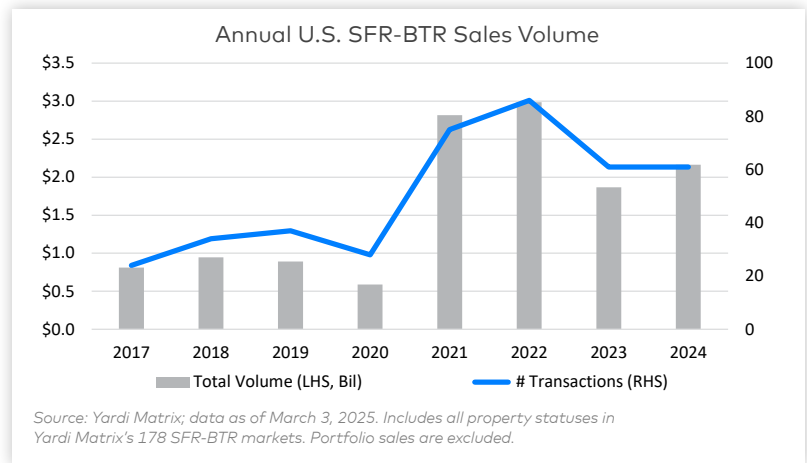


and those who need more space for home offices. The high cost of homeownership and weak home sales also work to the benefit of SFRs. A significant number of SFR tenants are saving to buy a home or lack the credit or savings to get approved for a mortgage. Surveys indicate that SFR tenants remain in place longer than the average multifamily tenant, which helps retention and occupancy.

## BTR Fueling Growth

The institutional SFR market came into being in the wake of the global financial crisis, when investors bought from banks large portfolios of foreclosed single-family home mortgages, especially in states such as Arizona, Florida and Texas. After the pool of foreclosed homes dried up, institutions took advantage of low interest rates and the booming for-sale market to fuel a surge of scattered-site home acquisitions that peaked in 2021 and tailed off after mortgage rates rose in 2022.

In addition to buying scattered sites, institutions grow through construction and the acquisition of SFR-BTR communities. Sales of communities with 50 or more units ranged from \$600 million to \$945 million from 2017 to 2020 but rose sharply in



2021 to \$2.8 billion and peaked in 2022 at \$3.0 billion, according to Yardi Matrix data. After interest rates rose in 2022 and muted transactions in all commercial real estate sectors, sales volume fell to \$1.9 billion in 2023; it was \$2.2 billion in 2024.

Sales of BTR communities with 50 or more units topped \$100 million in 2024 in six metros, led by Phoenix (\$284.8 million), Atlanta (\$225.0 million), Charlotte (\$189.1 million) and Denver (\$185.7 million), per Matrix. Ten companies acquired more than \$50 million of BTR communities in 2024, led by Hines (\$156.5 million), Welltower (\$112.2 million), RREEF (\$101.0 million) and Invitation Homes (\$84.7 million). Hines, Invitation and Stockbridge are private owners, while Welltower and RREEF are REITs.

### Top 10 Metros for SFR-BTR Sales 2024

Metro	Volume (Mil)	Units
Phoenix	\$284.8	1,023
Atlanta	\$225.0	789
Charlotte	\$189.1	657
Denver	\$185.7	388
Twin Cities	\$152.3	561
Athens	\$112.2	216
Tampa	\$95.8	342
Austin	\$76.9	278
Sacramento	\$65.0	152
Chattanooga	\$62.8	217

Source: Yardi Matrix; data as of March 13, 2025

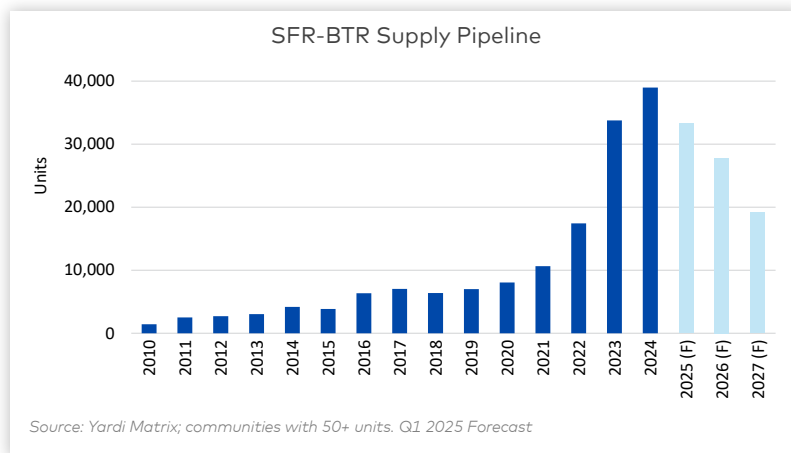
### Top 10 SFR-BTR Buyers 2024

Buyer	Type	Volume (Mil)
Hines	Private Owner	\$156.5
Welltower	REIT	\$112.2
RREEF Property Trust	REIT	\$101.0
Invitation Homes	Private Owner	\$84.7
Stockbridge Capital Group	Private Owner	\$81.0
PGIM Real Estate	Insurance Company	\$65.0
Welltower	REIT	\$63.3
Inland Real Estate Group	REIT	\$62.0
Christopher Todd Communities	Private Owner	\$57.0
Bascom Group	Private Owner	\$56.6

Source: Yardi Matrix; data as of March 13, 2025

Since 2021, markets with the most sales volume of BTR communities with 50 or more units have included Phoenix (\$1.6 billion), Atlanta (\$676.9 million), Denver (\$612.5 million), Pensacola, Fla. (\$375.0 million) and Tampa (\$363.0 million). Companies with the highest acquisition volume during that time were Stockbridge Capital (\$311.3 million), Inland Real Estate (\$300.5 million), Prospect Ridge (\$283.5 million), Hines (\$156.5 million) and Austin Affordable Housing Corp. (\$148.6 million). Stockbridge, Prospect Ridge and Hines are private firms, while Inland is a REIT and Austin Affordable is a non-governmental organization (NGO) focused on affordable housing.

Current high mortgage rates combined with the lack of for-sale supply means institutional SFR growth is now concentrated in new construction. Because institutional involvement in SFRs only began in the wake of the global financial crisis, the construction pipeline grew from nothing over the last 17 years, increasing as more institutions joined the fray. Deliveries of properties with 50 or more units totaled only 1,400 units in 2010, but have risen steadily and topped 39,000 units in 2024, per Matrix. Going forward, Matrix forecasts



deliveries to fall to 33,300 in 2025, then 27,800 in 2026 and 19,200 in 2027.

Deliveries are forecast to shrink in 2026 and beyond because BTR development is subject to the same pressures that are causing a drop in housing starts in every segment. Rising construction costs make deals hard to pencil. Construction debt is expensive despite strong lender liquidity, and the cost of land, labor and materials is rising. Plus, there is growing potential for costs to rise further this year due to tariffs and reduced labor availability.

As a result, starts of BTR communities with 50 or more units rose from less than 5,000 annually

### Top 10 Metros for SFR-BTR Sales Since 2021

Metro	Total Sales Price	Units
Phoenix	\$1,644.5	4,416
Atlanta	\$676.9	2,929
Denver	\$612.5	1,252
Pensacola	\$374.9	1,092
Tampa	\$363.0	1,298
Athens	\$357.9	1,027
Charleston	\$326.3	1,084
Austin	\$316.6	1,174
Charlotte	\$291.0	1,362
Long Island	\$283.5	795

Source: Yardi Matrix; data as of March 13, 2025

### Top 10 SFR-BTR Buyers Since 2021

Buyer	Owner Type	Volume (Mil)
Stockbridge Capital Group	Private Owner	\$311.3
Inland Real Estate Group	REIT	\$300.5
Prospect Ridge	Private Owner	\$283.5
Hines Interests	Private Owner	\$156.5
Austin Affordable Housing Corporation	Non-Governmental Organization (NGO)	\$148.6
Dermot Company	Private Owner	\$143.0
Sequoia Equities	Private Owner	\$140.0
The Walden Group	Private Owner	\$135.4
Living Residential	Private Owner	\$135.0
Logan Capital Advisors	Private Owner	\$132.2

Source: Yardi Matrix; data as of March 13, 2025

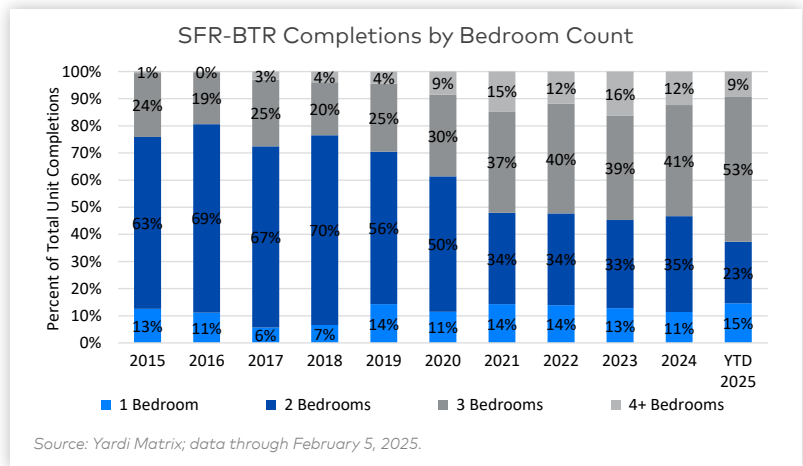
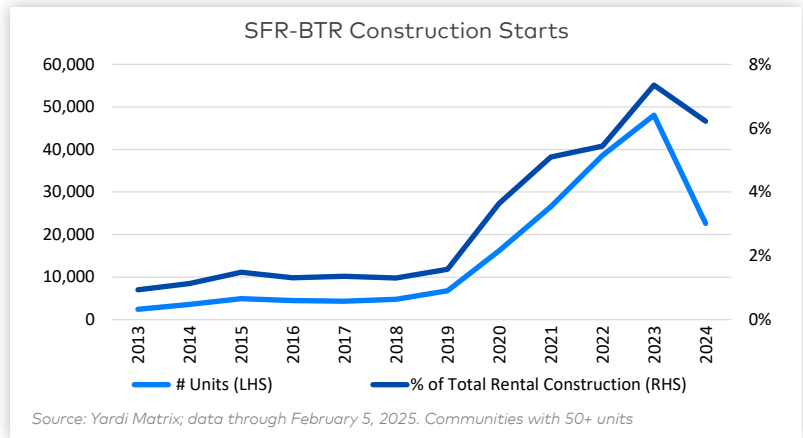
until 2019. BTR starts peaked at 48,000 in 2023 and then dropped by more than half to 22,600 in 2024.

With scattered-site purchases unlikely to accelerate anytime soon, where does that leave institutions seeking to grow SFR market share? Increasingly, the path to growth for institutions is focused on building communities and/or developing partnerships with homebuilders. Building units can be a slow path to growth, especially since few institutional investors entered the business with their own development infrastructure.

This is leading institutions to develop homebuilder partnerships that take different forms. In some cases, homebuilders construct single-family communities with units for sale and sell excess inventory to institutional SFR investors. Another type of deal is for homebuilders to sell entire single-family projects to institutional SFR investors, either because they lack the capital to proceed or they do not believe the project is viable due to prices or conditions in the for-sale market.

SFR-BTR development is not cookie-cutter; communities encompass several different types of homes, including:

- Horizontal multifamily, which comprises mostly one- and two-bedroom, single-level cottages with small, enclosed backyards.
- Two-story townhomes, typically with two or three bedrooms, or attached rowhouses.
- Traditional single-family homes with three or four bedrooms.
- Luxury single-family homes, typically four bedrooms or more with a higher price point.



Over the past decade, SFR-BTR developers have shifted from building mostly horizontal multifamily and townhomes to a focus on traditional single-family and luxury homes with more space. The percentage of SFR-BTR deliveries with three or four bedrooms averaged 55% over the past four years (reaching a peak of 62% in 2024), compared to only about 25% between 2015 and 2020. The shift to larger homes was a response to demand from families wanting more space for children, pets and home offices.

### Evolving Business Model

The potential for growth in the SFR-BTR market is enormous. Some 14 million single-family homes are rented, the vast majority of them owned by small investors that own fewer than five units. Institutions nationally own an estimated 2% to 4% of single-family rentals and less than 1% of

all single-family housing stock. Yet consolidation will be slow and difficult. So-called mom-and-pop investors exist for a variety of reasons. For example, homeowners who locked in low-interest mortgages in recent years may keep those homes and rent them out when they move, considering they can get rents that are much higher than the monthly payments.

Furthermore, institutions face a backlash in many jurisdictions. Legislation has been introduced on the federal level and in some states seeking to limit institutional ownership, though none has been passed to date. Institutions are blamed for rising home prices, though studies, including one published in March by the Real Estate Research Institute, find that there is a limited connection

between institutions and home prices. The study, titled "Impact of Institutional Owners on Housing Markets," was authored by Caitlin Gorbach of the University of Texas at Austin and Franklin Qian and Zipei Zhu of the University of North Carolina. It found that roughly one-third of U.S. metros have no institutional ownership at all, and in only 5% of markets do institutions have enough market share to create what amounts to a very small impact on for-sale prices.

Given the limits on external growth in acquisitions and development, institutions are consolidating through mergers and focusing on operational efficiency to improve net cash flow. The evolution will help the market find its footing as it endeavors to meet the demands of renters and investors.

—Paul Fiorilla, Director of Research

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