Build-to-Rent 2025: A Strategic Investment Outlook

Market Analysis & Investment Framework

A White Paper by Cavan Companies | June 2025

This analysis examines the rapidly expanding Build-to-Rent (BTR) sector, which saw 27% year-over-year growth in 2024 with $14.8 billion in institutional capital deployed (CBRE, 2024). As homeownership barriers rise and rental preferences evolve, BTR combines single-family living with professional management convenience.

CAVAN COMPANIES

Table of Contents

Executive Summary

Build-to-Rent has emerged as the fastest-growing residential real estate segment, offering investors a compelling combination of stable cash flow, rent growth, and long-term appreciation—particularly in today's high-cost, undersupplied housing market.

Market Dynamics

- **28% year-over-year sector growth** with **$14.8B in institutional capital deployed** (2024)
- **3.8 million unit housing deficit** nationwide *(Freddie Mac, 2024)*
- **42% home price increase** since 2019; mortgage rates have more than doubled
- **68% of high-income households ($75K+) now rent by choice** *(RCLCO, 2024)*

The BTR Advantage

Premium Income

- Up to **15% higher rents** vs. traditional multifamily
- **96–98% stabilized occupancy**
- **25–35% longer average tenancy**, driving lower turnover costs

Financial Outperformance

- **Target IRRs** 15–18% projected returns on stabilized ground-up BTR developments over a 4–5 year hold period.
- **Cap rates 50–75 bps lower** than Class A multifamily assets *(JLL, 2024)*

Strategic Insight

BTR offers **recession-resilient, yield-driven income** with equity upside in an environment of persistent housing undersupply and shifting consumer preferences. This white paper outlines how BTR can serve as a durable and scalable strategy for long-term portfolio growth.

1. Housing Market Analysis

The U.S. housing market is undergoing a fundamental structural transformation, driven by chronic supply limitations and shifting generational preferences.

Critical undersupply persists

Housing demand has consistently exceeded new completions by over 400,000 units annually since 2019, creating a substantial cumulative deficit of 4.3M units as of Q1 2024.

Affordability crisis deepens

Median home prices have surged 45% since 2019, pushing mortgage payments to consume an unsustainable 35.4% of median household income—a dramatic increase from 25.1% in 2019.

Construction capacity constraints

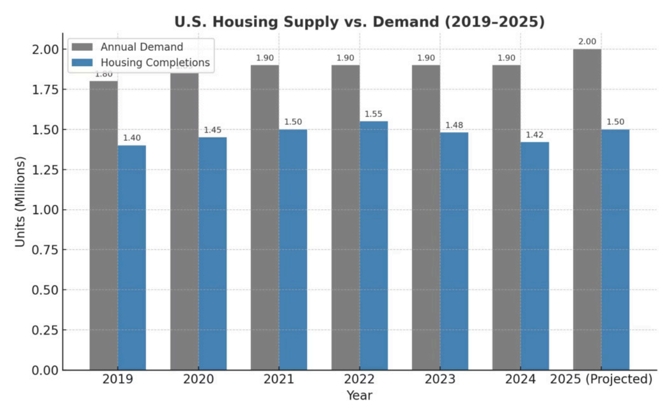
Critical labor shortages (exceeding 440,000 unfilled positions) combined with regulatory hurdles have severely limited production capacity, while material and land costs have escalated by 36% and 63% respectively.

Restrictive zoning barriers

Approximately 75% of residential land across major metropolitan areas remains exclusively zoned for single-family development, with lengthy entitlement processes averaging 18–24 months, further restricting housing supply.

Evolving demographic priorities

Millennials and Gen Z, now representing 45% of the adult population, exhibit significantly different housing preferences, with 57% valuing location flexibility over traditional ownership (up from 42% in 2019), fundamentally extending rental lifecycles.



Strategic implication: These conditions signal a permanent recalibration of the housing market rather than a temporary cyclical fluctuation. Build-to-Rent developments strategically address this imbalance by delivering high-quality rental homes with ownership attributes in supply-constrained markets where traditional construction cannot satisfy evolving consumer preferences.

2. BTR Market Opportunity

The 4.3M unit housing deficit and soaring home prices create an exceptional landscape for Build-to-Rent investments, addressing critical supply constraints and evolving consumer preferences while delivering superior risk-adjusted returns.

Rental Market Dynamics

High-income renters (earning >$75K) now constitute 47% of the rental market. Single-family rental demand has surged 31% post-pandemic, with luxury BTR communities achieving 97.3% occupancy compared to 92.7% for traditional multifamily developments.

Market Growth

BTR capital allocation has expanded dramatically from $10B (2020) to $58B (2024), with BTR rental costs 22-37% more affordable than homeownership in Sun Belt markets. Ongoing affordability pressures and cautious lending standards are expected to preserve this BTR affordability advantage at least through 2027.

Higher-Income Renters

47% of renters now earn >$75K annually, fueling demand for premium rental options with professional management that command 15-20% price premiums over traditional apartment communities.

Superior Performance

Stabilized BTR communities trade at cap rates 50-75 basis points lower than Class A multifamily assets, reflecting robust investor demand and long-term confidence in the sector (JLL Capital Markets, 2024).

Institutional Interest

Industry leaders including Blackstone ($8.7B), KKR ($4.2B), and Invitation Homes ($3.9B) have deployed substantial capital, validating the market's potential and creating favorable exit opportunities for developers.

Regional Expansion

BTR development has extended beyond traditional Sun Belt markets into secondary locations across the Midwest and Mountain West, with 65% of new communities now emerging outside the established hubs of Phoenix, Dallas, and Atlanta.

$10B

Initial capital (2020)

Strategic market-entry acquisitions by early institutional investors

$58B

Current level (2024)

Scaled deployment across development, operations, and portfolio acquisitions

$70B

Projected (2025)

Anticipated capital inflows driven by increased institutional allocations and expanding foreign investment

Strategic opportunity: BTR assets present a compelling investment thesis by directly addressing the structural housing deficit while delivering while delivering professionally managed, high-amenity housing solutions aligned with modern renter expectations. The significant gap between robust consumer demand and limited available supply creates a multi-year window for developers and investors to establish dominant market positions with minimal competitive saturation risk through 2030.

3. BTR: Definition and Models

Build-to-Rent (BTR) communities are purpose-built, professionally managed residential developments designed exclusively for the rental market.

Build-to-Rent Housing Types

The Bungalows®

1–3 bedrooms, 750–1,400 sq ft. Horizontal multifamily with private entrances and yards. 5–15% rent premiums with higher tenant retention.

Detached Single-Family

3–4 bedrooms, 1,500–2,200 sq ft. Standalone homes with full yards and attached garages. 10–20% rent premiums, attracting families and remote workers.

Semi-Detached Townhomes

2–3 bedrooms, 1,200–1,800 sq ft. Shared-wall structures with 10–15% rent premiums. Appeals to professionals and small families seeking private entrances.

BTR Market Position

15-25%

Rent Premium

vs. traditional multifamily

68%

Retention Rate

vs. 52% in multifamily (NMHC, 2023)

$75-125K

Target Income

Upper-income households, professionals

Operational Models

Scattered-Site BTR (22%)

Individual homes across multiple neighborhoods. Offers portfolio diversification with 10–20% lower maintenance costs and 15–18% higher NOI margins than traditional scattered-site portfolios.

BTR Communities (78%)

Master-planned neighborhoods (80-200+ homesites) with consistent design. Delivers 22-30% lower maintenance costs and 15-18% higher NOI margins through operational efficiencies.

> **KEY INSIGHT:** Build-to-Rent delivers the homeownership experience with renting flexibility. Superior retention rates (68% vs. 52% in multifamily) and decreased turnover costs ($2,100–$3,400/unit annually) create more stable income streams. According to JLL Capital Markets (2024), stabilized BTR communities typically trade at cap rates **50–75 basis points lower** than comparable Class A multifamily assets, demonstrating strong investor confidence and operational resilience.

4. Financial Metrics

Build-to-Rent (BTR) properties offer clear financial advantages over traditional multifamily assets across key performance categories, leading to superior risk-adjusted returns.

Comparative analysis demonstrates BTR's operational advantages:

Metric	BTR	Traditional MF	Source
Rent Premium	5–15%	Baseline	CBRE, 2023
Occupancy	96–98%	92–94%	Yardi, 2023
Tenure	+30%	Baseline	NMHC, 2023
Maintenance	15-20% Lower	Baseline	NAHB, 2023

KEY INSIGHT: Superior Returns

BTR communities consistently outperform traditional multifamily by leveraging longer lease durations, lower operating expenses, and higher rent premiums. These dynamics lead to **enhanced NOI margins and stronger overall returns.**

Return Profile Comparison

- **BTR Target Annual Returns:** 7.2% – 8.5%
- **Traditional Multifamily:** 5.7% – 6.8%
  Source: Walker & Dunlop, 2023

This **1.5% – 2.0% delta in performance** compounds significantly over a five-year hold period.

Operational Efficiency Drivers

- **Tenant Stability:**
  30% longer average tenancy = lower turnover and fewer leasing cycles
- **Cost Reduction:**
  - 22% lower acquisition and re-leasing costs
  - 18–22% lower maintenance via standardized unit designs
  - 12–15% insurance savings from detached layouts and controlled access
    Source: Walker & Dunlop, 2023

Cap Rate Compression

Stabilized BTR communities trade at **50–75 basis points below** Class A multifamily assets, driven by:

- Reduced volatility in occupancy and income
- High tenant satisfaction and low delinquency
- Institutional demand growth and exit liquidity

Source: JLL Capital Markets, 2024

5. Regional Performance Variations

BTR financial performance varies significantly by region, with measurable advantages across key indicators:

Region	Rent Premium	Annual NOI Growth	Avg. Cap Rate
Southeast	8-14%	7.2%	4.9%
Southwest	10-16%	8.4%	5.1%
Midwest	5-11%	6.5%	5.4%

(Sources: Yardi Matrix, CBRE, 2024)

Institutional Investment Growth

Institutional BTR investment volume has grown from ~$10B in 2020 to over $58B by 2024.
(Source: JLL Capital Markets, 2024)

Financial Insight

BTR's premium rental rates and reduced operating costs create a virtuous cycle of amenity reinvestment, further driving rent premiums and tenant retention.

Investment & Growth Outlook

$58B

Capital Volume

Institutional BTR investment growth from ~$10B in 2020 to 2024
(JLL Capital Markets, 2024)

12%

Market Penetration

Expected portion of all new U.S. housing starts by 2025
(NRHC Forecast, 2025)

4.3%+

Rent Growth

Average annual growth, exceeding multifamily by 100–150 basis points
(Yardi Matrix, 2024)

Returns

Stabilized BTR assets deliver **5.5–7.0% cash-on-cash returns** and **12–15% IRRs** over a five-year investment horizon.

Cap Rate Advantage

Stabilized BTR trades at 50–75 bps lower cap rates than Class A multifamily *(JLL Capital Markets, 2024)*

Market Expansion

Growth extending into Nebraska, New Mexico, and Kansas, offering early-mover advantages *(CBRE Research, 2024)*

6. Strategic Development

Successful Build-to-Rent (BTR) developments require disciplined planning and strategic execution. Early-stage decisions fundamentally shape operational performance and investor returns.

Key Success Factors

Growth Markets

Regions with demonstrable population inflows and sustainable demographic momentum

Favorable Regulation

Streamlined zoning, expedited entitlements, and targeted development incentives

Infrastructure Proximity

Strategic positioning near employment corridors with transit connectivity

Educational Access

Integration within top-tier school districts to attract family renters

Strategic Insight

Industry leaders secure high-potential land positions *before* market recognition drives costs upward, yielding **superior risk-adjusted returns**.

72%

Sunbelt Market Share

Of all new BTR inventory development

55K+

Units in Development

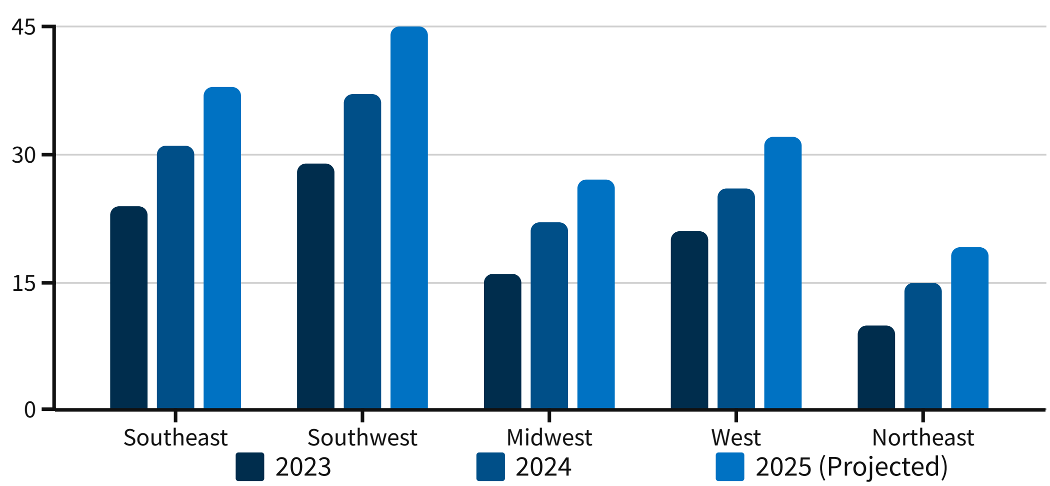
Projected by 2025, majority in Sunbelt

$68B

Institutional Capital

Allocated to BTR development (2024)

BTR Market Growth by Region (2023-2025)



(Source: CBRE Research, JLL Capital Markets, 2024)

7. Operational Excellence in BTR Development

Operational excellence serves as the critical differentiator in Build-to-Rent developments, transforming strategic design choices and prime locations into sustainable financial performance and superior resident experiences.

Key Performance Indicators:

42%

ROI Premium

Compared to traditional multifamily investments

95%

Absorption Rate

In strategically positioned communities

4.5

Investment Horizon

Years for optimal value realization

Four Pillars of Operational Excellence

Intelligent Management Systems

Leading operators deploy proprietary platforms integrating comprehensive property management, AI-driven analytics, and real-time reporting—delivering 15–20% OpEx reductions versus industry standards.

Maintenance Optimization

Preventative maintenance protocols extend asset lifespan and reduce emergency service requests by up to 35%. Integrated smart home technology enables remote diagnostics and accelerated issue resolution.

Community Engagement

Strategically designed resident programs enhance retention by 18–22% while supporting 8–12% rent premiums compared to comparable properties within the same submarkets.

Revenue Management

Sophisticated pricing algorithms analyzing 40+ variables optimize rental income while maintaining consistent 95%+ stabilized occupancy rates.

> "While thoughtful design establishes the foundation, operational execution remains the true differentiator in BTR performance. Long-term investment success hinges on the sophisticated systems and processes operating behind the scenes."

8. Case Study: The Bungalows® by Cavan Companies

Since 2016, **Cavan Companies** has pioneered an innovative Build-to-Rent (BTR) approach with its proprietary development model: **The Bungalows®**—a portfolio exceeding **5,400 purpose-built, single-story rental homes** strategically positioned across high-growth Sunbelt and Midwest markets.

Distinctive Offering

The Bungalows® effectively bridges the gap between traditional homeownership and apartment living, providing residents with the privacy and feel of a detached home combined with the convenience of professional property management.

Key Features:

- Fully detached residences (excluding 1-bedroom units)
- Private yards with expansive ten-foot ceilings
- Resort-caliber amenities including pools, fitness centers, and dog parks
- Integrated smart home technology and premium interior finishes

This distinctive approach consistently generates **5–15% rent premiums** while driving exceptional **resident satisfaction scores and retention rates**.

Investment Performance

San Tan Village Case Study

- Exit valuation of **$415,700 per unit**
- Closed at a premium **4.9% cap rate**
- One of the highest per-unit sales recorded for a stabilized BTR asset in the region

Financial Metrics

- **8–10% higher NOI margins** compared to traditional multifamily assets
- **Cap rate compression of 50–75 basis points** versus comparable Class A investment properties
(Source: JLL Capital Markets, 2024)

9. Performance Highlights

Operational Excellence (2020–2024)

98.2%	7.1%	68%
Occupancy	**Rent Growth**	**Retention**
vs 96.2% national BTR avg	vs 5.8% national BTR avg	vs 53% national BTR avg

Source: CBRE Research, Yardi Matrix

Strategic Advantages

1 Product-Market Fit

The Bungalows® delivers **98%+ occupancy**, **5–15% rent premiums**, and **28% higher retention** than average.

2 Development Efficiency

Vertically integrated model with in-house expertise, standardized plans, and strong subcontractor relationships reduces costs and timelines.

3 Market Intelligence

Data-driven site selection targeting high-growth markets with strong household formation and favorable zoning conditions.

Performance Indicators

Market Premium

5–15% rent premiums vs. traditional multifamily

Financial Edge

8–10% higher NOI margins

Growth Pipeline

2,500+ new units by 2026

> *"The Bungalows® represent the future of residential rental communities—combining the best attributes of single-family living with the operational efficiencies of multifamily management."*

10. Investor Perspective: Optimizing Real Estate Strategy Through Build-to-Rent

Build-to-Rent (BTR) has emerged as one of the most compelling real estate investment vehicles in recent years. The sector offers exceptional income stability, substantial growth potential, and directly addresses contemporary housing market demands. From 2020 to 2023, institutional investors increased their BTR allocations by **75%**, deploying over **$40 billion** into the sector. Industry leaders including Blackstone, KKR, and Brookfield are spearheading this strategic shift (CBRE Research, 2024).

Financial Performance Benchmarking

BTR properties consistently outperform traditional rental asset classes across key performance indicators:

Metric	BTR Communities	Class A Multifamily	SFR Portfolios
Annual Yield	4.5–6.0%	~3.8%	4.0–5.5%
Rent Premium	15–20%	—	—
Occupancy	96–98%	93–95%	~92%
Lease Duration	24 months	14 months	16–18 months
Renewal Rate	68%	53%	~60%

> *Goldman Sachs (2024) projects BTR investments will outperform traditional apartment investments by 50–75 basis points over the next decade, driven by superior income performance and reduced market volatility.*

Institutional Capital Flows (2021–2024)

$18.5B

Private Equity

Committed to BTR-specific funds and acquisitions (CBRE, 2024)

$7.3B

Sovereign Wealth

Invested from Canada, Singapore, and Gulf-based sovereign entities (Altus Group, 2024)

85%

Insurance Companies

Increase in BTR allocations, driven by income stability and inflation-hedging benefits (JLL, 2024)

23%

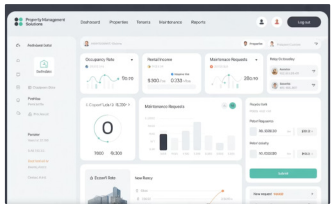
Family Offices

Attracted by predictable cash flow, lower volatility metrics, and tax-efficient income streams

Strategic Advantages of BTR as a Portfolio Asset

Income Stability

Demonstrated exceptional resilience with 97% rent collection throughout COVID-19 disruptions *(NRHC, 2022)*



Operating Efficiency

Delivers 8–12% lower operational expenses through centralized management and standardized operational protocols *(W&D, 2023)*

NOI Margins

Generates 15–20% higher net operating income compared to traditional apartment assets *(JLL Capital Markets, 2024)*

Diversification

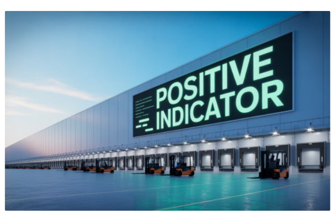
Provides superior portfolio insulation with only 0.3 correlation coefficient with equity markets versus 0.65 for REITs *(Preqin, 2024)*

Institutional Portfolio Rebalancing Trends

While commercial office and retail sectors continue to face significant headwinds, institutional investors are strategically redirecting capital toward high-performance alternative assets. Build-to-Rent and industrial real estate have evolved beyond opportunistic investments to become essential core portfolio allocations, offering a compelling combination of downside protection and substantial growth potential.

BTR Communities

📈 Increasing



Industrial

📈 Increasing

Retail

📉 Decreasing

Office

📉 Decreasing

> *"The BTR sector has firmly established itself as an institutional-grade asset class—consistently delivering superior returns, operational scalability, and precise demographic alignment that have become indispensable elements of modern portfolio construction."*
> *— JLL Capital Markets, 2024*

11. Exit Strategies, Liquidity & Strategic Outlook

As Build-to-Rent (BTR) portfolios mature, institutional and high-net-worth investors are increasingly prioritizing strategic liquidity planning. BTR assets consistently command **valuation premiums of 12–18%** over traditional multifamily properties, driven by their superior operating performance, enhanced tenant stability, and growing institutional demand.

Strategic Exit Options

- **Portfolio Aggregation**
  Bundling stabilized communities into 250+ unit portfolios can yield **7–10% valuation premiums**, attracting REITs, pension funds, and sovereign wealth funds. *Source: CBRE Research, 2023*
- **Community-Level Dispositions**
  Selling individual assets provides greater flexibility—particularly for 1031 exchange buyers—delivering **15–20% IRRs** that consistently outperform traditional multifamily returns. *Source: JLL Capital Markets, 2024*
- **Strategic Recapitalization**
  Joint venture structures enable sponsors to return **40–60% of invested capital** while maintaining management control and preserving long-term upside potential. *Source: Walker & Dunlop, 2023*
- **Institutional M&A**
  Full-portfolio or platform sales to major fund operators typically complete within **6–9 months**, facilitating efficient, large-scale liquidity events. *Source: Walker & Dunlop, 2023*

Optimizing the Exit Process

1. Pre-Marketing

Timeline: 2–3 months

Assemble comprehensive financial statements, due diligence materials, and third-party validation reports

2. Investor Outreach

Timeline: 1–2 months

Target strategic buyers specifically aligned with property geography and yield requirements

3. Due Diligence

Timeline: 45–60 days

Conduct thorough lease audits, property inspections, and facilitate buyer underwriting

4. Closing

Timeline: 30–45 days

Finalize legal documentation and execute capital transfer protocols

Strategically located BTR assets with cost-efficient construction and centralized management consistently command premium pricing and faster transactions.

12. Strategic Investment Outlook for BTR (2025 and Beyond)

The following macroeconomic and operational factors position Build-to-Rent (BTR) as a resilient and rewarding investment strategy:

Structural Demand Drivers

U.S. housing deficit exceeds **4.3M homes**, with construction trailing household formation by **25–30%** annually. Median home prices have reached **5.8x** median household income vs. historical **3.5x** benchmark.

Sources: Freddie Mac, 2022; NAR, 2023

Lifestyle Alignment

Modern renters prioritize space, privacy, and flexibility: **76%** prefer dedicated office spaces and outdoor areas, with **64%** paying **12–18%** rent premiums for these features.

Source: RCLCO, 2023

Premium Valuation

BTR assets trade at cap rates **50–75** basis points below comparable multifamily properties. Institutional investment surged **185%** since 2020, with **$18.5B** in dedicated BTR capital raised in 2023.

Sources: JLL, 2024; CBRE, 2023

Geographic Diversification

- Emerging markets (Nashville, Charlotte, Denver) report rent growth exceeding **6.5%**
- Mountain West and Southeast regions achieve lease-up rates of **25 units per month**

Sources: NMHC, 2023; Berkadia, 2024

Operational Technology Advantage

- **7–12%** higher NOI through centralized management
- **22%** reduction in maintenance costs
- **8–12%** improvement in tenant renewal rates
- **3–5%** enhanced occupancy via data analytics

Sources: Walker & Dunlop, 2023; Fifth Wall Ventures, 2024

13. Conclusion: BTR's Strategic Investment Advantage

Build-to-Rent (BTR) has emerged as a premier real estate investment class, outperforming traditional multifamily assets by 180 basis points (Yardi Matrix, 2024). With projected capital deployment of $25.4 billion in 2025—a 32% year-over-year increase (Freddie Mac, 2024)—the sector's growth stems from demographic shifts, housing shortages, and institutional demand for stable, income-generating assets with inflation-hedging properties.

Why BTR Leads in 2025 and Beyond

Superior Performance: Projected investments of **$25.4B** in 2025, a **32%** year-over-year increase with **1.8%** return advantage over traditional Class A multifamily.

Demographics: **71%** of Gen Z renters prefer BTR-style living with **2.3 million** new rental households expected by 2025, driving **18%** growth in housing demand.

Structural Tailwinds: U.S. housing deficit of **3.8 million** units sustains rental demand, projected to persist for **15+ years** (NAR, 2024).

Key Success Drivers

Strategic Site Selection

Tech-forward secondary markets achieve 9.3% higher returns than primary urban centers.

Thoughtful Design

Smart home technology commands 12-15% rent premiums.

Professional Management

Higher retention rates (68% vs. 52% for apartments).

Strategic Takeaway:
BTR offers income stability, capital preservation, and portfolio diversification with a 3.8 million unit structural housing deficit providing a favorable foundation.