

Executive Summary

Build-to-Rent 2026: The Durable Thesis

Why Midwest Low-Density Is the Next Chapter for Disciplined Capital

For Family Offices, High-Net-Worth Individuals, and Asset Managers · Published May 2026 · Cavan Research

The first chapter of build-to-rent proved the category. The next chapter separates the durable from the merely fashionable.

Most investors arrived at BTR through the Sun Belt growth trade: rent growth, land arbitrage, pipeline scale. That chapter is closing. National rent growth in purpose-built BTR sat near zero through year-end 2025, and peak deliveries in oversupplied submarkets are still pressuring absorption. Investors still running that playbook are going to feel it.

The fundamentals of the asset class did not deteriorate. They re-sorted. The performance gap between well-located, well-operated communities and the rest of the field is widening, and a different kind of BTR investor is stepping forward.

This paper argues that the durable BTR allocation for 2026 and beyond is defined by three choices:

Geography	Product	Time Horizon
Midwest and supply-constrained markets over oversupplied Sun Belt metros, where rent growth is already diverging in favor of measured-pipeline geographies.	Low-density formats with private yards and community amenities over dense infill, delivering substantially lower turnover and sustained 10–20% rent premiums.	Disciplined capital aligned to the BTR development cycle, structured for operational predictability and tax efficiency that family office portfolios require.

Executed with discipline, this combination delivers inflation-aligned cash flow, operational predictability, and after-tax returns that have become difficult to source elsewhere in real estate.

KEY OBSERVATIONS SHAPING THE 2026 LANDSCAPE

- Family offices anchor real estate at 13% of portfolio allocations within a ‘big three’ that includes private equity (28%) and public equity (15%), valued for cash flow and inflation protection. (BNY Wealth, 2025)
- 36% of BTR residents identify as renters by choice, reflecting a behavioral shift that has outlasted the 2022–2024 rate cycle and shows no sign of reverting. (John Burns, 2024)
- Midwest BTR markets delivered mid-single-digit positive rent growth through 2025 while high-delivery Sun Belt markets contracted. The divergence is geographic, not cyclical. (John Burns, 2025)
- Purpose-built BTR communities command 15–20% rent premiums over comparable multifamily in select markets, driven by private yards, amenity utilization, and lower turnover. (RSM US, 2026)
- The January 2026 Executive Order restricts federal program support for large institutional purchases of existing homes while explicitly carving out purpose-built BTR communities.

Cavan Research Insight

BTR has entered its selectivity phase. Occupancy remains in the mid-90% range nationally, but the performance gap between communities is widening considerably. Geography, product format, and operator execution now matter more than asset-class exposure. Investors who recognize this early will compound the advantage for the next decade.

THE MIDWEST LOW-DENSITY THESIS

The Midwest BTR position is contrarian. It is also, at this point in the cycle, the one supported by the data.

Through 2025, Midwest BTR blended rent growth ran in the mid-single-digit range year-over-year while high-delivery Sun Belt markets contracted by low-single-digits. Markets including the Twin Cities, Columbus, Indianapolis, and Kansas City all showed positive rent growth as the national SFR/BTR index moved into negative territory. The structural conditions driving that divergence remain in place heading into 2026.

The reason is straightforward: the Midwest is not absorbing a supply overhang because it never built one. As of early 2026, the Midwest represented approximately 13% of national BTR units under construction. Phoenix alone has a pipeline that effectively matches the entire Midwest combined. There is no concession war pressuring in-place rents, and well-located communities are entering markets where institutional-quality BTR is structurally underrepresented relative to demand.

Within BTR, the low-density cottage and detached-home format (roughly 8 to 10 units per acre, with private yards, garages, and community amenities) produces the most durable operating economics: 14–18% annual turnover versus 20–30% in conventional multifamily. Every percentage point of turnover eliminated falls directly to NOI.

WHY THE THESIS IS DURABLE

Demand That Does Not Revert

A 4M+ unit housing shortfall and homeownership costs beyond median-income reach are not artifacts of the rate cycle. BTR is the only format delivering single-family living at scale to renters who prefer it.

Policy Positioning

The January 2026 Executive Order carved out purpose-built BTR from restrictions on institutional single-family purchases, recognizing it as supply-additive. HUD financing pathways remain open under current guidance.

An Operating Model Competitors Cannot Copy

Phased lease-up compresses the J-curve in ways vertical multifamily cannot match. BTR communities generate revenue against construction carry while later phases are still being framed. Cost segregation concentrates depreciation early. 1031 optionality lowers tax drag at exit.

Capital Markets Maturation

BTR-specific financing structures and institutional-grade reporting standards are improving access and execution certainty for disciplined allocators while narrowing the edge available to early entrants.

4M+ National housing shortfall	36% Renters by choice	+3–5% Midwest BTR, 2025	15–20% BTR rent premium	Mid-90s BTR occupancy
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CONCLUSION

The right geography, product format, and operating partner produce a risk-adjusted return profile that is genuinely difficult to source elsewhere in real estate today. The full paper makes that case in detail.

Disclosure. Cavan Companies is an active developer and operator of purpose-built BTR communities, including in the markets and formats discussed in this paper. For informational purposes only. Not investment, legal, or tax advice.