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HBJ PHOTO | STEVE LASCHNER

An aerial view of the \$25 million "Grand Luxury Homes" project in Granby, which features 23 duplex-style houses and 19 single-family homes available for rent.

Wave of single-family, build-to-rent properties crashes against Northeast's high costs

By Michael Puffer
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Construction of single-family rental homes is a booming business in fast-growing southern and southwestern states, where undeveloped land is cheaper and far more plentiful than in the Northeast, said **Steven Katz, executive vice president and chief investment officer** at multifamily lender and investor **Arbor Realty Trust**.

In the 12-month period running through the first quarter of 2023, there were 68,000 construction starts of single-family houses intended for rent



Steven Katz

nationally, according to Arbor's most recent "Single-Family Rental Investment Trends Report." That accounted for 7.3% of all single-family houses launched during that 12-month period, a new record, the report notes.

By comparison, between 1975 and 2007, less than 2% of American houses, on average, were built for rent, according to the Arbor report, citing U.S. Census data.

Katz said the construction of single-family rental homes hit its stride beginning around 2016, as

developers in booming southern and southwestern states discovered they could build those dwellings at prices comparable to traditional garden-style apartment units.

Developers married the appeal of a single-family home with multifamily amenities, including pools, clubhouses, dog parks and other premium elements, he said.

"Frankly, it's the hottest market in commercial real estate," Katz said. "I would say, by a lot."

Arbor lends to investors with single-family rental home portfolios in Connecticut, especially around New Haven. But these tend to be scattered

houses, built originally for owner-occupancy and later pooled into a rental portfolio.

Arbor hasn't yet worked with a developer of new single-family rental home communities in Connecticut, Katz said.

"Anyone who lives in the Northeast knows there's some sort of absurd premium to build or construct or renovate or do anything else in the Northeast," Katz said. "I think largely the cost of the land and the cost of improving said land is what's precluded the Northeast from really catching the wave of the build-to-rent movement."

According to a report published in February by storage-unit listing service StorageCafe, Connecticut is the second-most costly state to build a single-family home (at \$574,000), behind only Massachusetts.

StorageCafe's analysis was based on the cost of the median lot size available in each state, combined with inflation-adjusted homebuilder prices and administrative costs, like permitting and broker fees.

Paying a premium

Robert Kligerman, chairman of Fairfield-based developer **Connecticut Realty Trust**, agrees high costs have kept the single-family, build-to-rent trend from significantly occurring in Connecticut. But his experience shows there's a customer base willing to pay rents that justify construction.

Connecticut Realty recently completed its roughly \$25 million "Grand Luxury Homes" project in Granby, which features 23 duplex-style houses and 19 single-family homes available for rent. The development was completed in June and fully leased by August, Kligerman said.

In May, Connecticut Realty broke ground on a 90-unit development on 35 acres in Bloomfield that will consist of 12 duplexes and townhouses available for rent. It's planning another single-family home rental community in East Granby.

"There are people who sell their house but don't want to live in an

MOST EXPENSIVE STATES TO BUILD A NEW HOME			
STATE	Total building costs (land, construction & other costs)	Median single-family home listings price	Difference building vs. buying costs
MASSACHUSETTS	\$576,000	\$629,000	-\$53,000
CONNECTICUT	\$574,000	\$449,000	\$125,000
NEW HAMPSHIRE	\$567,000	\$475,000	\$92,000
HAWAII	\$551,000	\$1,045,000	-\$494,000
NEW JERSEY	\$548,000	\$500,000	\$48,000
MAINE	\$544,000	\$380,000	\$164,000

Source: StorageCafe

LEAST EXPENSIVE STATES TO BUILD A NEW HOME			
STATE	Total building costs (land, construction & other costs)	Median single-family home listings price	Difference building vs. buying costs
ARKANSAS	\$358,000	\$260,000	\$98,000
WEST VIRGINIA	\$358,000	\$225,000	\$133,000
KENTUCKY	\$359,000	\$300,000	\$59,000
OKLAHOMA	\$359,000	\$299,000	\$60,000
VIRGINIA	\$361,000	\$458,000	-\$96,000
TEXAS	\$361,000	\$412,000	-\$51,000

Source: StorageCafe

apartment or buy another house," Kligerman said. "A very large amount of millennials don't ever intend to own a house, yet they love the amenities that having a single-family home provides."

Others in Connecticut have considered single-family home and duplex rental developments.

Last year, Massachusetts-based Winstanley Enterprises was advancing plans for an estimated \$100 million, highly amenitized development of single-family and duplex-style rental homes on 30 acres at its Great Pond Village site in Windsor.

However, Winstanley has backed

away from that concept, after project costs came in significantly higher than expected for roads and infrastructure, according to **Winstanley spokesman Matthew Watkins**.

Instead, the developer will pursue a more traditional layout of three- and four-story apartment buildings, Watkins said.

Winstanley plans to pursue the development in two phases, with the first yielding 209 apartment units, Watkins said. The company expects to complete first-phase design, permitting and bidding this year, with groundbreaking planned for the fall of 2024.◀