



Austin's New Rental Trend

The demand for single-family rentals continues to grow.

By Mark S. Wolf
August 5, 2016

Cities across the nation are attracting Baby Boomers and younger Millennials, especially Austin—a city with a strong economic engine, an unemployment rate of less than 3 percent and favorable employment sectors including technology, medical and education. Austin and its outlying suburbs now represent one of the fastest growing regions in the country—especially among renters.

Roughly 200 people move to the Austin metro area every day, lured by robust, attractive employment opportunities. Housing supply, however, is failing to keep up with demand

and, as a result, is driving prices up and affordability down. As a result, the Austin area's apartment market continues to boom. With occupancy rates at 94 percent, according to [Austin Apartment Trends](#), units are being leased almost as fast as they are being delivered.

Despite the fact that many want to live in the city core, increasing rental rates—albeit at a slower pace this year compared with last—has created a lack of affordable options



downtown. People are thus increasingly drawn to suburban communities where builders and developers offer more affordable and varied living options as well as a higher quality of life. Additionally, that means these Boomer and Millennial audiences are looking beyond traditional for-lease and for-sale housing at other options such as single-family rentals (SFRs). This is now seen as the missing layer of housing, with a marked upswing during the recession and growth continuing in today's recovery cycle.

Two hot, fast-growing housing markets near Austin where we are currently building SFR communities include Georgetown and Pflugerville. [According to the United States Census Bureau](#), Georgetown is the nation's fastest growing city, with a population increase of 7.8 percent. Pflugerville ranks 11th in the nation, with 4.5 percent growth.

Building for the “rentership society”

In 2010 we identified Greater Austin as a huge opportunity. Initially active in apartment acquisitions, we subsequently moved into SFR communities as a growing institutional asset. Recognizing Austin's need for SFRs, we've built a team, relationships, and reputation in the region.

Similar to a long term hold strategy in multifamily, a solid SFR business model partners with capital from high-net worth and institutional partners for a longer investment cycle. Whether it be the public single-family rental REIT's, apartment REIT's or private investors/funds, we see strong demand for these communities and the upside they are able to produce. SFR developers can provide an exceptional product with a very low risk, high return proposition for investors of all types. The model operates essentially like a lower density apartment investment and the permanent financing that is available provides great cash flow.

We have acquired more than 1,200 lots in the Austin MSA, comprising six different communities. AHV's SFR communities currently under development include Village on San Gabriel in Georgetown and Village on Legacy in Pflugerville. Additionally, we have a growing pipeline of new communities planned for the Austin MSA in 2016.

Like any market, it's important to be selective with land acquisitions. One also needs to ensure that schools, retail and employment are nearby, select sites with high growth areas, and build strong relationships with sellers and brokers.

Knowing your renter demographic is also essential. The SFR home appeals to a wide range of people including young professionals, young families, move-down couples and active adults. The increasing “rentership society” is a result of a number of factors, challenges and lifestyle shifts including folks waiting longer to get married, the unaffordability of for-sale homes and the inability of consumers to qualify for financing. Additionally, there is a growing movement among consumers to maintain the flexibility to move at will and to retain the ability to spend earnings on things other than a down payment and home maintenance. However, many of these consumers are still very much drawn to the lifestyle of a single-family home. SFR residents get the benefits of a detached home with the freedom and flexibility of a lease.

Amenities for the renter lifestyle

Although not always prevalent in the SFR market today, well-executed communities are owned, managed, maintained and operated like luxury class “A” multifamily properties and include onsite property management, yard and home maintenance. Thus it is not only the investment model that mirrors the traditional multifamily sector, but also the management of the asset.

The services and amenities in a SFR home must also match those typically found in a luxury apartment. Sustainable features including LED lighting, tankless water heaters and energy efficient appliances are a must in SFR homes. In addition to green features, this new generation of single-family renters expects high-end finishes such as designer wood-style flooring, luxury countertops, and washer and dryer hook-ups. They want more space and privacy, front and back yards, parking, open floor plans, walk-in closets and two-car direct-access garages. There is also an increased demand for shared amenities such as clubhouses, community pools, fitness centers, playgrounds and walking trails.

The next five years

Supply, demand, and the national economy will all determine what Austin’s housing landscape looks like over the next three to five years. Other factors include interest rates, consumer debt and student debt. These headwinds could continue to push the homeownership rate down and demand for rental living up.

Single-family rentals are a growing institutional asset but the sector is becoming more competitive and the assets tougher to buy and operate at the yield requirements for a lot of these investors. Ultimately, we expect to see more competition and more interest in SFR communities like ours in Austin and across the country. As Greater Austin rental market continues to boom, we will be prepared to meet the demand of residents looking for SFR homes.

Mark S. Wolf is founder and CEO of AHV Communities, a privately held developer, builder and operator of luxury single-family home rental communities with offices in Newport Beach, California and Austin, Texas.