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Contributors in this issue:



Patrick Duffy is a Principal with MetroIntelligence and contributes to BuilderBytes.



Greg Vogel is CEO of Land Advisors Organization based in Scottsdale, Arizona.



Julia Malisos, LEED AP is a Principal- Planning/ Community Design at WHA Architecture. Julia can be reached at juliam@whainc.com.



Lesley Deutch is a principal at John Burns Real Estate Consulting.



Mark Wolf is Founder and CEO of AHV Communities. Visit www.AHVCommunities.com, contact Mark Wolf at mwolf@ahvcommunities.com.



Troy Warr is a Senior Software Engineer at Computer Presentation Systems.





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Developing SFR Communities: Land, Finance, Design & Newer Challenges

To build successful communities, developers must address some important issues

By Mark Wolf

Single-family rental communities are being built across the country's burgeoning markets at record pace. Unfortunately, not all are equally well designed, located or managed, resulting in individual developers dealing with common problems. Issues at play are land, finance, design, material shortages and supply chain challenges.

Sourcing Land

In sourcing land, developers experience the same issues they commonly had in the past. Good locations are hard to find, and when available, are often expensive and incite bidding wars. Developers operating with a long-term hold investment strategy will typically be in a better position to pay more for land, as they'll be able to patiently wait longer for returns, or wait out likely corrections in the market as they occur.

However, many competitors operating in the SFR sector today deploy a short-term approach, building and selling communities with speed to achieve quick ROI. These developers typically cannot achieve good returns if they've overpaid for land. It's likely one driver of a current trend are places not near employment centers. These communities force residents into exorbitantly long commutes. Over time, location will stress these communities as they'll fail to attract quality residents, eroding asset value over time.

Securing Financing

Money is flooding the marketplace at record pace and levels. Notably, institutional capital has been active in single-family rentals since the sector officially formed after

the global financial crisis. It's taken many years, and much education, for institutional investors to finally see that developing communities from the ground up is a viable investment.

Debt is another story. A lender partner who is consistent, offers non-recourse options and is willing to work with the developer through

“Demand is still strong for housing but concern about affordability are reaching peak levels.”

unforeseen issues is likely less risky than choosing one simply because they are offering a lower rate. This type of debt provider is more likely to be a private lender or mortgage REIT with an understanding of the business, rather than a bank, which by its nature deals with more regulation and restrictions.

Envisioning Design and Amenities

Design isn't always one of the highest priorities, but the amenities of the community are of paramount importance. Fitness centers, swimming pools, outdoor open spaces, dog parks and more are all key ingredients of a desirable community today.

If and how a community fits cohesively into its surrounding neighborhood will determine much of its success. Therefore, developers and their architects must study and understand regional consumer trends and how they are influencing design as well as lifestyle considerations and desires. Everything from the features within the community, the flow

and functionality of the floor plans, exterior and interior color palettes, architectural aesthetics, materials, treatments and finishes must be strongly considered.

Overcoming Challenges

Sourcing land and debt, along with envisioning the right design for the demographic and region, are consistent struggles of ground-up community development. Three current major issues developers face are materials shortages, rising construction costs and supply chain disruptions. Developers across the country are plagued by all three.

Some of the building materials in both high demand and short supply are drywall, electrical wiring, fuses, breakers, plumbing fixtures and even the foam used to manufac-

ture insulation. Inventories of these products are impacted by raw materials shortages. In some cases, severe storms have impacted manufacturing plant outputs, in other cases mining of minerals has slowed.

At the same time, the global supply chain is exacerbating the problem. Serious disruptions to it are being caused by a multitude of issues: excessive online shopping, shipping container shortages, backlogs at major ports, storm related trucking delays and labor shortages to name a few. Exposed further by the pandemic, the strain of the supply chain is impacting construction deadlines and is forecasted to continue to cause pains within the construction industry for the foreseeable future. **BD**

Mark Wolf is Founder and CEO of AHV Communities, a leader in master-planned single-family rental home communities. Visit www.AHVCommunities.com, contact Mark Wolf at mwolf@ahvcommunities.com.