From the Phoenix Business Journal:
https://www.bizjournals.com/phoenix/news/2021/05/06/chandler-developer-investing-in-hybrid-rentals.html

Chandler developer planning to deliver 1,000 hybrid rental homes in metro Phoenix

May 6, 2021, 9:00am MST

PARAGON DEVELOPMENT GROUP

More single-family rental units are coming to the East Valley.

Once known for building office condos, Chandler-based Paragon Development Group is pivoting to enter the rapidly growing build-to-rent residential market that features single-family detached rental homes within a resort-like community.

Plans call for investing $200 million to build 1,000 units in metro Phoenix, said Bruce Dunn, president of Paragon Development.

The company paid $3.1 million for a 15.67-acre parcel at the northeast corner of Southern Avenue and Meridian Road in Apache Junction.

Plans call for building a 195-unit gated, luxury rental community with single-family homes ranging from 645 to 1,295 square feet. It will be named Hampton Meridian and feature private backyards, 10-foot ceilings, granite and quartz countertops, full-size washers and dryers and stainless-steel appliances.

While it's too early to determine rental rates for the new community, monthly rental rates range between $1,340 and $1,835 for another community Paragon built two miles west in Mesa called Hampton East II.

Paragon's 143-unit Hampton East is about 95% occupied, while Hampton East II is adding 53 units east of Crismon Road on Hampton Avenue in Mesa near US Highway 60.

"We have another site in Maricopa we're excited about and we are looking at other sites in various stages of negotiation," Dunn said. "We would like to do 1,000 units if we can in metro Phoenix as quickly as we can."

Build-to-rent craze

These build-to-rent units are extremely popular in metro Phoenix — which is considered ground zero for this new hybrid model — and are taking off across the country.

Paragon is using Tempe-based HercuTech's HercuWall panelized structural wall system, which consists of concrete, steel, polyester film and insulating foam that creates nearly soundproof units and also enables residents to achieve energy savings up to 40%, Dunn said.

With 4,857 of these build-to-rent units already under construction in metro Phoenix, another 1,602 are planned, said Thomas Brophy, research director for Colliers International.

"BTR is seen by both investors and developers as a relief valve for the exploding demand in the 'for sale' single-family home category," Brophy said.

When stabilized, these BTR communities are averaging 96% occupancy levels and 11% year-over-year rent increases, proving that demand for this particular category is only increasing, he said.

"With significant construction cost headwinds facing the entire development industry particularly with lumber, May futures hit $1,260 per thousand board feet on the Chicago Mercantile Exchange, up 193% year over year, will continue to propel more people into renting in both the near-to-medium terms," Brophy said.

Bret Rinehart, advisor with Land Advisors Organization, said the Valley is a hotbed of activity as the build-to-rent market continues to gain momentum.

"What's helping to fuel this is the fact that developers in the sector are adapting their product to meet consumer demands by offering garage and design features that feel more like a traditional home as opposed to apartment-style living," Rinehart said. "With the cap rates compressing, the economics are working for more developers, particularly in suburban or outlying areas where land pricing is not as aggressive as the inflll locations. We believe this product will be a highly sought after asset for many years to come."

Angela Gonzales
Senior Reporter
Phoenix Business Journal