An emerging asset class

A look at institutional single-family rental activity in 2016 and 2017

by Sandeep Bordia, Jasraj Vaidya and James Mills

The share of institutions in the single-family rental market has been rising since 2010. Last year was no exception. Although some of the publicly traded single-family rental REITs report their holdings publicly, we used a slightly different approach to understand the activity of all the major institutional players (publicly traded or not). Specifically, we use the County Record and Transaction Data from CoreLogic to track properties that are owned by institutional pools of capital, by identifying buyers allied with each of them. Based on this approach, we found upward of 200,000 homes owned by institutional capital at the end of 2016 (see the table on page 58). Because these are derived from county record data based on buyer-name tagging, they may not cover all purchases by the listed institutional buyers and, therefore, are an estimate. In fact, our estimate of 200,000 homes is likely a lower bound for institutional-owned single-family rental. But regardless of the exact number, the key is institutions continue to capture a bigger part of the single-family rental market.

Given our specific approach to tracking properties, we can explore more than simply the actual number of properties owned, and/or managed, by institutions. Transaction prices are available on about 85 percent of institutional holdings, for example, and they suggest purchases averaged about $140,000 per home. Based on publicly available data on refurbishing costs from some of the institutions, we estimate the total acquisition and stabilization basis in these homes averages about $165,000. That brings total institutional investment in single-family rental homes to about $33 billion. This excludes the investments in technology, operations and other resources that institutions have made in the past few years as they ramped up their portfolios.

From our standpoint, the two key takeaways are:

1. $33 billion in holdings is a big leap for an asset class that had little institutional involvement until six to seven years ago.
2. We risk being repetitive, but $33 billion is still only a teensy drop in the bucket compared with the total value of single-family homes, which we estimate at about $26 trillion. Even among the 15 million or so single-family rentals (i.e., excluding owner-occupied single-family homes), institutions own less than 2 percent.

Newer entrants taking larger market shares of purchases in recent years

In terms of the mix of institutional buyers, our data suggests newer entrants increased their purchases in 2015 and 2016. Invitation Homes (a Blackstone investment), for example, purchased 1,191 homes in 2016, which was less than its prior year's purchase of 3,742 homes. In contrast, Altisource Residential Corp. increased its purchases from 1,022 homes in 2015 to 3,012 in 2016.

In general, we find the biggest institutional players in the

single-family rental space (such as Invitation

Single-family rental institutional holdings (estimated from county record and transaction data)

Institution*	Total count	Units with sale amount in transaction data	% with transaction prices	Estimated purchase price ($m)	Estimated all-in cost ($m)	Average cost per property	Average landed cost per property
Invitation Homes**	47,317	44,539	94%	$8,212	$8,947	$174,000	$189,000
American Homes 4 Rent	46,663	39,978	86%	$6,686	$8,263	$143,000	$177,000
Colony Starwood Homes***	30,747	25,832	84%	$4,664	$5,682	$152,000	$185,000
Progress Residential	19,269	17,129	89%	$3,170	$3,450	$164,000	$179,000
Silver Bay Realty Trust Corp.	9,235	7,825	85%	$1,007	$1,213	$109,000	$131,000
Main Street Renewal	8,554	6,872	80%	$894	$1,203	$105,000	$141,000
Tricon American Homes	6,858	5,738	84%	$717	$824	$105,000	$120,000
GTIS Partners	6,371	3,518	55%	$498	$566	$78,000	$89,000
Cerberus Capital Management	4,703	2,199	47%	$652	$780	$139,000	$166,000
Altisource Residential Corp.	4,158	3,863	93%	$284	$369	$68,000	$89,000
HavenBrook Homes	4,027	3,884	96%	$380	$453	$94,000	$113,000
Haven Homes	2,865	2,197	77%	$327	$373	$114,000	$130,000
VineBrook Homes	2,056	1,112	54%	$99	$139	$48,000	$68,000
Gorelick Brothers Capital	1,974	1,677	85%	$166	$192	$84,000	$97,000
Camillo Properties	1,359	19	1%	$51	$190	$38,000	$140,000
Lafayette Real Estate	1,258	982	78%	$98	$112	$78,000	$89,000
Connorex-Lucinda	1,121	1,091	97%	$174	$200	$155,000	$178,000
Transcendent Investment Management	609	580	95%	$58	$66	$95,000	$109,000
Broadtree Residential	561	497	89%	$55	$63	$97,000	$112,000
Reven Housing REIT	499	215	43%	$58	$79	$117,000	$159,000
Prager Property Management	277	117	42%	$45	$59	$163,000	$215,000
Pintar Investment Co.	228	194	85%	$46	$55	$202,000	$241,000
Total	**200,709**	**170,058**	**85%**	**$28,340**	**$33,279**	**$141,000**	**$166,000**

* Includes homes held by various allied institutional buyers

** Blackstone holds a 40 percent investment in Invitation Homes; the firm formerly held 70 percent

*** Name changed to Starwood Waypoint Homes as of July 28, 2017

Note: Because these are derived from county record data based on buyer-name tagging, they may not cover all purchases by the listed institutional buyers and, therefore, are an estimate. Some intercompany transfers may not be included in our analysis if we were unable to tag both the buyer and the seller to a specific institution.

Note: In August 2017, Invitation Homes and Starwood Waypoint Homes (formerly Colony Starwood Homes) announced an intention to merge. This merged entity is not reflected in the exhibits in this piece, and the firms are treated as separate entities. Tricon and Silver Bay are also shown as separate entities because these numbers reflect positions at the end of 2016.

Source: Amherst InsightLabs estimates based on CoreLogic County Record and Transaction Data as of Q4 2016

Homes, American Homes 4 Rent and Colony Starwood Homes) slowed their purchasing in 2015–2016. At the same time, mid-size players (such as Progress Residential, Main Street Renewal, Altisource Residential and Connorex-Lucinda) were more active in 2015–2016 compared with prior years.

Even though the largest institutional holders of single-family rental have slowed purchasing activity, some consolidation definitely has occurred in this space. Consolidation, such as a bulk transaction or a merger, can enable institutions to reach economies of scale more quickly and take advantage of specific opportunities. Three recent examples of such are Tricon American Homes' acquisition of Silver Bay Realty Trust Corp., as well as Colony Starwood Homes' acquisition of the more than 3,100-home Waypoint portfolio from GI Partners, and the resultant Starwood Waypoint Homes' proposed merger with Invitation Homes.

Institutional buyers coalesce around three distinct strategies

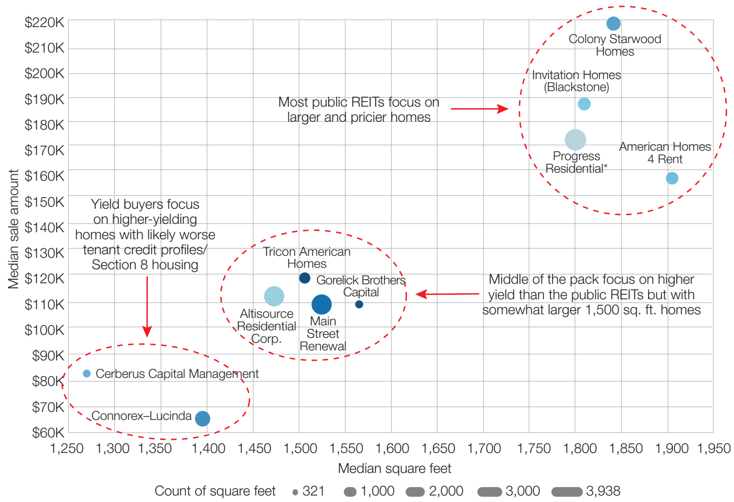
The largest institutional buyers of single-family rental have been coalescing around three broad strategies, and the distinctions became even more defined in their 2016 purchases. The graphs to the left show the strategic distinctions pictorially, with the top chart plotting the median size of homes purchased in 2016, with square footage on the horizontal axis and median transaction price as recorded in the transaction dataset on the vertical axis. To provide some context, according to the U.S. Census Bureau's 2015 American Housing Survey, median home size across all single-family detached homes is 1,800 square feet, while that for single-family rentals (including those not owned institutionally) is 1,400 square feet. The survey also shows sizes are somewhat larger for newer-construction homes. For single-family rentals built post-2000, the median size for homes is about 1,800 square feet, for example, while for those built in the 1990s it is 1,685 square feet.

Similarly, the bottom left chart shows the median year built for homes along the horizontal axis, while the vertical axis plots ZIP code–level median household income averaged across 2016 purchases. To provide some context, the median year built for all U.S. single-family homes is 1974. The typical rental home is slightly older, with a median year of construction of 1966, as per the 2015 American Housing Survey. Median household income in the United States is about $55,775, according to the American Community Survey from the U.S. Census Bureau.

Strategy 1 — Public REITs focus on the higher-end market. Most public REIT buyers choose higher-priced, larger and newer homes in areas with generally higher median household incomes of $65,000 to $70,000 per year, and buy at lower gross/net cap rates. Invitation Homes, Colony Starwood Homes (now Starwood Waypoint Homes), American Homes 4 Rent and Progress Residential (which is not a publicly traded REIT like the rest, but follows a similar strategy) fall under this category.

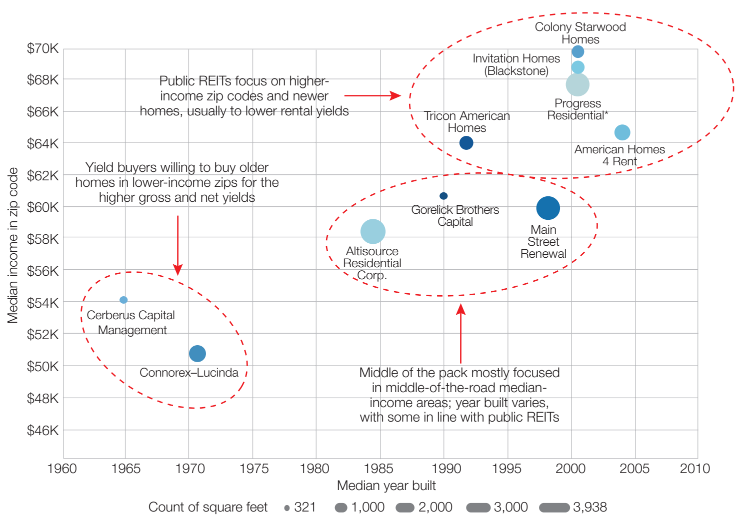
Their 2016 purchases, for example, sit at the top right corner of "Purchase amount vs. home size." The median size of homes bought by public REITs

Institutional investment in single-family rental in 2016: Purchase amount vs. home size



Note: The size of the bubble represents the share in 2016 purchases by institutions.
*Progress is not a publicly traded REIT but has a similar strategy.
Source: Amherst InsightLabs estimates based on Corelogic County Record and Transaction Data as of Q4 2016

Institutional investment in single-family rental in 2016: Median income vs. year built



Note: The size of the bubble represents the share in 2016 purchases by institutions.
*Progress is not a publicly traded REIT but has a similar strategy.
Source: Amherst InsightLabs estimates based on Corelogic County Record and Transaction Data as of Q4 2016

was about 1,800 square feet to 2,000 square feet. That is larger than the median single-family rental home and more in line with houses built post-2000. Not surprisingly, "Median income vs. year built" shows publicly traded REITs are again mostly in the top right corner, with newer-construction homes (median year built approximately 1990–2000) in areas with relatively higher median household incomes (about $65,000 to $70,000, well above the country's median of about $56,000).

The focus for these public REITs has usually been larger, newer homes in higher-growth metros (although not exclusively so). Such homes generally trade at a lower cap rate but arguably with the potential of higher rent growth and home-price appreciation. Tenants renting at these price points are likely to have stronger financial profiles and are likely future homebuyers as they build/rebuild their credit.

Strategy 2 — Lower-end homes similar to non-institutional market. This is a yield-focused strategy targeting sub-$100,000, smaller homes in areas with $50,000 to $55,000 annual median household incomes. Institutions with this strategy are comfortable buying older homes, which usually trade relatively cheaper because they are in worse shape, but that is offset by somewhat-higher gross yields/cap rates. Cerberus Capital Management and Connorex-Lucinda fall into this category.

As "Purchase amount vs. home size" shows, these buyers place at the bottom left area, given their focus on sub-$100,000 homes. For this group, the median size of 2016 purchases was closer to 1,300 square feet to 1,400 square feet, which is at or below the median for all single-family rental homes and much below the median for newer homes. "Median income vs. year built" confirms their target is generally older homes (median year built 1960s–1970s) and also areas with below-average median household incomes (about $50,000 to $55,000).

At this price/size point, both the price and rent on a per-square-foot basis are on the higher side. These also come with higher potential credit costs, given the generally weaker tenant profile. In addition, lack of access to credit in this tenant segment likely means the scope for cap rate compression remains limited in the face of rising rates. At the same time, investors are being compensated by a higher net cap rate (higher running income).

Strategy 3 — Value buyers in the middle. This strategy focuses on properties that are somewhere between the above two categories. Such homes are more moderately priced and sized, located in areas with about $55,000 to $60,000 median household incomes, and are at somewhat higher cap rates than the public REITs but lower than the yield buyers. We believe this to be the "sweet spot" of the single-family rental market; cap rates are more attractive than the publicly traded REIT strategy, and decent potential exists for price appreciation. Purchases by institutions such as Altisource Residential, Main Street Renewal, and to some extent Tricon American Homes, fall into this area.

As "Purchase amount vs. home size" depicts, their median buy price is in the $110,000 to $120,000 range, with approximately 1,500 square feet of space. This size is about the same as the median for all single-family rentals, but smaller than the median for all single-family homes, and much smaller than newly constructed single-family homes. Similarly, "Median income vs. year built" shows buyers in this strategy go for homes with a median build year between 1980 and 1990. The one exception is Main Street Renewal, which owns newer homes with a median year build in the late 1990s. Overall, buyers in this strategy focus on ZIP codes with median income of $55,000 to $60,000, which is average to slightly above average for the nation as a whole.

At this price/size point, cap rates are somewhat higher than on properties bought by the public REITs. That is partly due to the geographical mix; these buyers tend to focus in the middle of the country, which generally has higher cap rates than the coastal areas (the latter favored by many, if not all, of the public REITs). To the extent lower price points are more a reflection of geography, we believe the price points and home sizes usually still point to a relatively stronger-than-average tenant profile. Similar to the higher-end homes, it can be argued that if and when mortgage credit availability for their tenants improves, end-buyer demand for these homes likely will increase. This stronger demand could provide an additional avenue for cap rate compression.

Market large enough for players to pursue multiple strategies

While the institutional single-family rental space has been in existence for five to seven years, it is still far behind other commercial real estate sectors, such as multifamily, where institutional ownership exceeds 50 percent. With institutional ownership at 2 percent of all single-family rentals, the market overall remains large and still has untapped space for institutions to grow. It is not inconceivable for some larger players to pursue or target more than one type of home and/or focus on different segments in different markets. ❖

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