HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Wall Street is Loving Single Family Rentals

In 2010 it was viewed as a quick way to make a buck, but Wall Street's investment in single-family rental housing soon became a distinct asset class and the pandemic has encouraged its expansion. While the inventory of available homes for sale has **shrunk to historic lows,** institutional investors are not only gobbling up existing homes, they are beginning to buy new homes and build to rent. The newest wrinkle is the entry of major new home builders into the market.

The Great Recession purchases of distressed homes by hedge funds (Blackstone was probably the first) was welcome at the time. They relieved lenders of the burden of many foreclosed properries (as well as bad loans on which they later foreclosed) and were credited with **putting a floor under plunging home prices.** It was also feared, however, that they would tire of managing scattered site rentals and create another crisis when prices rose and they dumped their investments.

Apparently they worked out some of the management kinks. (Although the New York Times investigated major issues between Invitation Homes (owned by Blackstone) and their unhappy tenants last year. We summarized those findings here and here.) But, with the recession over and fewer distressed homeowners, the companies were no longer able to scoop up bargains and were also finding upkeep of the older homes they had purchased cutting into profits. While they didn't cut and run, they did pull back on buying. Moody's says they went from purchasing **$100 million** in single family homes each month in 2013 to $20 to $30 million three years later. They also consolidated, with bigger companies like Invitation buying out smaller ones.



Jason Wood
Mortgage Advisor & VA Loan Specialist, VA Loan Guy - American Mortgage Network
www.valoanguy.us
P: (760) 350-3989
M: (760) 217-0820
1185 LINDA VISTA DR
SAN MARCOS CA 92078
317293

The business model goes **beyond** capital gains and profiting from rising rents. The larger holders are bundling properties and using them as collateral for securities much like those issued by Ginnie Mae and the GSEs. This is now a $15 billion market. In addition, three single-family real estate investment trusts (REITS) have raised $18 billion through IPOs.

Wall Street's investment in single family houses has ebbed and flowed along with the rental market. Single-family rentals remain the province of "mom and pop" landlords; institutional investors own less than 2 percent of this market as opposed to **55 percent of multifamily units**. But that is rapidly changing.

When the Millennials finally began to form households, multifamily construction took off but building eventually caught up with demand and rents stabilized. In the meantime, both younger households who might not be ready to become homeowners and some Baby Boomers who were tired of it found multifamily choices limiting. This gave **another boost** to the single-family rental market.

Then came the pandemic and soaring home prices, the desire to move from congested areas, and the need for more space for working and studying at home. Investors realized this also meant a need for newer and larger properties. Rather than buying existing houses, they are now contracting with builders to acquire some of their inventory or building new homes themselves. This has quickly become known as the **build to rent (BTR) market.**

Robert Dietz, chief economist for the National Association of Home Builders (NAHB) estimates BTR added about 12,000 single-family houses to the rental stock during Q4 of 2020, up from around 6,000 in 2019. All told there were 44,000 units built-to-rent during the year.

© MBS Live, LLC. All rights reserved. This newsletter is a service of MBS Live.

These are **not** individual houses tucked into suburban neighborhoods but entire new rental communities. Rather than entry level, they are typically two to four bedrooms, many with patios, 10-foot ceilings, and high-end finishes.

Even as the pandemic seems to (hopefully) be winding down, there are **no signs** that the BTR market is doing the same. Les Shaver, writing in Globe.St says a new partnership between Invesco Real Estate and Mynd Management is planning to invest $5 billion to purchase 20,000 single-family rentals over the next three years. Shaver says Walker & Dunlop Investment Partners estimates the single-family rental market has a value of $3.4 trillion. By comparison, the entire multifamily market is estimated at $3.5 trillion.

The Globe.St article quotes Sudha Reddy, principal of Haven Realty Capital, a group that has partnered with builders to acquire homes. "SFR operators like Haven can be a great sales channel for builders who are open to selling an entire rental community to one buyer instead of to numerous individual buyers. This type of transaction can decrease the total hold period for a builder as operators can typically acquire phases of homes **more quickly** than individual buyers can buy phases of homes."

Issuance of commercial mortgage-backed securities (CMBS) has increased along with this activity. Issuances in the single-family rental sector doubled last year to $8.3 billion despite the pandemic which hobbled other asset classes.

While the initial entry of Wall Street into the single-family rental business m**ight have been welcomed,** their continued presence is less so. National Association of Realtors chief economist Lawrence Yun has frequently mentioned their holdings as one of the reasons for the severe lack of housing inventory. Back in 2017, Fannie Mae announced a "pilot program" in which it provided a $1 billion mortgage and unleashed a storm of protests from NAR and housing advocacy groups. Fannie Mae quickly scuttled the program.

Given the **concern** over the lack of new home building, especially at entry level, Yun and others are not going to be happy to hear about recent home builder activity. Toll Brothers, in a joint venture with BB Living is investing $60 million into single-family BTRs, working initially in Boise, Dallas, Texas, Houston, and Jacksonville, Florida. ECR Homebuilders is launching an IPO, hoping to raise $100 million for 1,000 BTRs, also in Florida.

The first project of **DH Horton's new subsidiary,** DHI Residential is now coming on line near Charlotte, North Carolina. Harrison Trace's homes will have three to five bedrooms, 2.5 to three baths, range from 1,360 to 2,368 sf, and rent for as low as $1,745 per month. They have smart home tech features, stainless steel appliances, and a one- or two-car garage.

It's not clear where this is going. Builders may decide they **don't like landlordship** and bail out in a few years although, given the congregate form of these homes it might not be easy to sell them individually. The rapid entry of so many entities into the sector may lead to oversupply and dropping profits. However, BTR probably doesn't bode well for new home inventories in the short run.

© MBS Live, LLC. All rights reserved. This newsletter is a service of MBS Live.