Sound Off #1 (Industry Professional Response)

THE INSTITUTIONALIZATION OF SINGLE FAMILY HOMES

Author

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The single family home rental market has always been a very significant part of our housing market and national economy; however, the fragmentation among "mom and pop" owners has resulted in little centralized data, research or attention focused on this sector. The recent recession has changed that. An emerging institutionalized market for rental single family homes is rapidly developing, and that genie is unlikely to go back into the bottle due to both cyclical and structural changes in our markets.

The crisis created both a glut of available houses at distressed prices and a surge in demand for rental housing. The homeownership rate in the US dropped from a peak of 69% to a current level of 65% as a result of foreclosures, lack of available mortgage financing and disillusionment about the "American Dream." That amounts to 5 million more rental families. As home prices went down and rents went up, opportunistic buyers were drawn into the sector to achieve higher returns than they could achieve on multi-family apartment investments, plus the possibility of outsized "HPA," or home price appreciation.

Now that the economy is beginning to normalize, many argue that the opportunity for high risk/high return investors looking to make a profitable short-term trade and high IRR may be fading. However, what is just starting, is the assemblage of stable portfolios for conservative, long-term investors seeking "core-like" returns.

Today, over 14 million families (representing 12% of all households in the US) live in rented, single family homes. Only 1-2% of these rental homes are currently held by investors that operate portfolios representing hundreds or thousands of homes. As these organizations continue to grow in scale, they can take advantages of operational efficiencies newly created through the use of technology and they can tap into emerging sources of capital. Their cost advantages, combined with the opportunity to offer more reliable customer service and improved marketing, will spur a huge consolidation wave from individual investors to institutional ownership, just as it occurred in the apartment industry in recent decades.

While specific market intelligence and entrepreneurial spirit may favor the local sharpshooter in acquiring and rehabbing properties, once stabilized, it makes sense to recycle capital and "flip" homes to an institutional owner that has the following advantages:

- Ability to access debt and equity capital efficiently
- Ability to purchase materials and contract labor at discounts
- Ability to use technology to efficiently underwrite large portfolios of homes
- Ability to diversify investments across different markets and neighborhoods
- Ability to effectively market their homes and communicate with residents using the internet and centralized call centers
- Ability to assure residents that their home will be properly maintained and will not be sold or foreclosed out from under them
- Improved compliance with applicable zoning and housing laws