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Chicago's Single-Family Rental Market Going Strong

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The single-family-home rental market remains on a tear that's expected to continue this year, despite low mortgage rates, slower home price growth and revised government-backed mortgage requirements that could drive more consumers into homeownership.

A year ago, amid rising home prices, global investment firm Blackstone Group, which operates Invitation Homes, determined that the "wave" of institutional buyers of single-family homes had passed, after buying thousands of houses in the Chicago market and elsewhere. Several competitors remain on the prowl for properties, predicting that 2015 demand for rental homes will continue to be robust.

"You still need to have very, very good credit to get a loan," Dave Singelyn, CEO of American Homes 4 Rent, said on a call with analysts last month. "They have loosened up a little bit on the down payment requirements, but the credit is not the way it was pre-2008."

American Homes 4 Rent, the nation's largest publicly traded company in the sector and owner of almost 2,000 properties in the Chicago area, bought more than 11,300 homes nationally in 2014, giving it a total portfolio at year's end of almost 35,000 homes.

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It expects to buy another 2,000 homes across the country just in the first quarter, and the company received 60,000 calls each in January and February from prospective renters. A year ago, that monthly call volume totaled 45,000.

Starwood Waypoint, another company with Chicago-area holdings, added 6,300 homes last year, ending 2014 with more than 11,400 homes.

Among locally owned firms, Tinley Park-based Mack Cos. expects to have little trouble acquiring at least 35 homes a month. There is less competition from some corporate landlords and still a large number of homes in the foreclosure process in Illinois, where all foreclosures are processed through the courts. It already has about 1,500 homes under management for investors that include individuals and private equity firms.

"It's our market now," said John Gutman, MACK's vice president of sales and acquisitions. "Being a judicial state, there is a lot of inventory out there."

These players, while large, account for only a small portion of the overall single-family-home market, which grew from 10.5 million properties in 2005 to 14.2 million homes in 2013. There's no real conclusion yet on the long-term implications of institutional buyers getting into the marketplace alongside small investors and of how neighborhoods are changing as more homes that were once owner-occupied now have tenants.

However, a recent report from the Urban Institute's Housing Finance Policy Center found that compared with homes occupied by homeowners, the rental population is younger and more diverse. Almost 1 in 4 single-family renters live below the poverty level. One-fifth of them are African-American non-Hispanic and a similar share are Hispanic. Single-family rental homes are smaller, older and less suburban.

"No one's done a big study of who's a better landlord," said Taz George, a research associate at the center. "Many of these mom and pops are absentee (landlords). On the other hand, does a big institutional investor sound like a great landlord? We don't know."

He added, "If these investors didn't exist in the first place, what would have happened to the properties undergoing the distressed sale? It may have led to more vacant properties."

What's ahead for the sector? Two trends are expected: consolidation among competitors as housing prices rise and the quantity of distressed homes for sale decreases, and cost containment as firms find ways to centralize property management functions and bring more dollars to the bottom line for investors.

American Homes 4 Rent last year acquired two firms and continues to search out more potential combinations. It also outsourced its utilities, meaning that an outside company pays the utilities of individual homes and then American Homes bills the tenants. The step was taken to put the company in control of making sure the monthly bills get paid. Other companies also are picking up properties in bulk sales.

Mack, meanwhile, is responding to demand among potential homebuyers and plans to buy and rehab for resale five to 10 homes a month, to appeal to consumers who want to move past renting. "There's a need for the more reasonably priced homes," Gutman said.