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Good News—Wall Street snaps up cheap single-family rentals

For Invitation Homes, the U.S. landlord built by Blackstone Group, the 220 houses it owned in working-class areas around Atlanta were outliers, filled primarily with low-income tenants paying rents well below those at its other properties.

For another company with big private equity ties, the homes were an opportunity.

Promise Homes, a firm started last year with \$130 million from investors including Ares Management co-founders Tony Ressler and Michael Arougheti, purchased the houses from Invitation Homes

for \$22 million in August. The startup set about a strategy built around helping tenants improve their finances, aimed at keeping them in their rentals and minimizing costly turnovers.

As Wall Street's rental-home industry matures from its early days of frenzied

home buying after the foreclosure crisis, upstarts such as Promise are turning to cheaper houses that have largely been cast aside by big, established landlords. With easy real estate bargains gone, investors are focusing on homes that carry higher yields and potentially more risks -- as well as an opportunity to promote a mission of helping poorer renters.



companies targeted to the affordable market, to lower-income residents -- because there still could be an opportunity to earn a return."

When Wall Street companies started buying homes en masse in 2012, they mostly avoided focusing on properties

"Larger companies are getting rid of underperforming assets," said Jade Rahmani, a managing director at Keefe, Bruyette & Woods Inc. "That's leaving an opening for companies to move more downstream,

DID YOU KNOW?

- Nevada is #1 in job creation for the entire US.
- The Las Vegas metropolitan area is growing in population of over 500,000 per year!
- Nevada has one of the lowest vacancy rates—2%— in the US.
- Nevada has a higher than average Median Income.
- The Las Vegas area has increased its rental inventory by 50% in 5 years. But still maintains a low vacancy rate.

aimed at poorer tenants, who tend to be less financially stable and more transient. Cheaper houses often require more expensive repairs, and even when they don't, landlords can get hung up on basic math: A new roof or refrigerator costs the same amount whether you rent the house for \$1,000 or \$2,000, but it takes longer to recoup the cost of repairs if you're collecting lower monthly payments.

Those calculations are changing, however, as increased competition drives up home prices and compresses yields.

"There's been interest in the lower-priced properties from individuals since we launched our platform," said Gary Beasley, chief executive officer of Roofstock, an online platform for buying and selling single-family rentals. "More recently, we've had institutions looking at some of the lower-priced homes and getting excited about it."

The idea is to offer quality, affordable housing that lets families stay in gentrifying neighborhoods, Davis said.

"Our goal is to be a long-term presence in these neighborhoods, not to be a part of the problem," he said.

Tough Economics

It takes considerable expertise for landlords or their management companies to balance the costs of maintaining quality homes while also serving the bottom line, said Julia Gordon, executive vice president of National Community Stabilization Trust, a nonprofit in Washington.

The market may get another boost as Freddie Mac moves into more financing of affordable homes. In January, the mortgage giant backed a portfolio of single-family houses in a first-of-its kind deal with TrueLane Homes, a landlord with 1,000 properties that rent for between \$800 and \$1,150 a month.

"The working-class markets and price point we operate in have been largely overlooked by other institutional investors," said CEO Alan True. "It's great to know that there is attractively priced debt to help fund additional acquisitions."

The rent versus buy equation could tilt toward renting in costly markets.

Thanks to the new tax law, it just got more expensive to own a home in high tax and high price places. For some people the changes, combined with rising prices, may mean renting makes more financial sense than buying. "Since home prices are rising faster than wages, salaries, and inflation, some areas could see potential home buyers compelled to look at renting" particularly in expensive West Coast cities, noted Blitzer.

"We begin 2018 with a frigid cloud of uncertainty surrounding the impact of the new tax bill that restricts State and Local tax deductions, both very high in states such as New York, New Jersey, Connecticut, California and Illinois," noted Leonard Steinberg, president of brokerage Compass, in an e-mail with his quarterly report on the New York's luxury market. "Will uncertainty lead the consumer to become a society of renters with diminished incentives to buy?" He thinks not.

Nevertheless, high rents and student debt loads have also made it difficult for young households to save up a down payment even if they can afford the monthly mortgage. Moreover, with prices rising so fast even a small increase in mortgage rates can put people over the edge on affordability.

The Reasons you need property management

- You have lots of properties or rental units.
- You don't live near your rental property.
- You're not interested in hands-on management.
- Your time is limited.
- You can afford the cost.
- You're inundated with management tasks.
- You do know any reliable and trustworthy repair vendors.
- You don't understand the eviction process.
- You're not sure what to look for in tenants.
- You do not know how to run credit checks on prospective tenants.
- You appreciate a good night's sleep.

Thinking of buying, selling, renting or have general questions about real estate investing? Call us! We're Here to Help You!