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Has housing bottomed? Have we missed something?

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"Has housing bottomed?" The collapse of the housing industry set off the great recession of 2008 and its recovery is critical to economic stability. While news media continually ponder this question, institutional investors are already pursuing opportunities in the housing market by implementing an investment strategy some call "The Next New Thing" - acquiring, on a large scale, distressed single family residences, completing necessary cosmetic improvements and renting until the properties can either be sold individually or as a portfolio.

On the surface this sounds simple (individual investors have long targeted these distressed opportunities), but the primary barrier to entry for larger investors/investment funds has been economies of scale in managing a disparate portfolio of single-family homes. Interestingly, a significant amount of institutional activity is already underway on exactly this strategy.

What is driving this opportunity? Is the housing recovery further along than we think?

- * According to the Case-Shiller Index, home prices have declined 36% from their peaks, a decline not experienced since the Great Depression. Although prices were still falling in February, the rate of decline has lessened and no more than another 5% decline is projected this year.

- * Recent Case-Shiller Housing statistics outlined May 2012 home sales exceeded those of the prior year. Since the Index lags the housing market (reported data includes houses sold in the three month period prior the published figure), activity for the true spring season will not be reflected in the Index until the fall.

- * New construction and sales have declined significantly. Only 304,000 new homes were sold in 2011, the lowest level since 1963 according to the U.S. Commerce Department.

- * Affordability has increased given reduced prices and record low interest rates. Increased apartment rental rates continue to tighten the equation of rent vs. own.

- * Housing supply has decreased - according to the National Association of Realtors existing home inventory is at the lowest level since 2006.

While acquiring, managing, renting and ultimately disposing of single-family homes had traditionally been a "mom and pop" market, private investment firms are already in this sector, tackling scaling challenges and realizing favorable current investment returns. Waypoint Real Estate Group LLC is an Oakland-based private equity firm that purchases homes in California and Arizona, using cloud computing, proprietary algorithms and technology to scale their business. Oaktree Capital Management LP teamed up with Carrington Capital Management LLC to add to Carrington's current portfolio of 3,000 houses in California and other states. Several other private equity firms discussed their intent on similar initiatives at both the recent CRE and ULI conferences.

Although there may be questions regarding the impact of demographics, public policy, and the rate of economic growth on the recovery of the single-family market, investors are already building portfolios of single-family homes at favorable costs levels, positioning for future capital gains.

Wayne Gretzky said, "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be." Has housing bottomed? Have we missed something?

Jill Hatton, CRE, is the 2012 New England/Upstate N.Y. CRE chapter chair, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540