



Atlanta Real Estate Summit: SFR investors in metro Atlanta expect rent growth in '17

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Martin Sinderman, Contributing Writer / Source: Home Union

Metro Atlanta remains an attractive market for investors in single-family homes, with a strong economy and low supply of new homes creating opportunities in both the rental and for-sale residential investment markets.

Atlanta-area investors expect to see rent growth and interest-rate-driven purchasing in 2017.

Single-family housing, particularly in the form of rentals, remains a popular investment vehicle in Atlanta and elsewhere, with smaller entities most in evidence as buyers while players in the institutional sector (at least for now) focus on improving their operations.

Nationally, single-family rentals comprise approximately 13 percent of all occupied housing, and about 37 percent of the total rental market, according to a September 2016 report from the National Rental Home Council, an organization dedicated to advocating on behalf of the single-family rental industry.

Household formation and changes in homeownership rates are two fundamental drivers for rental housing demand, the report notes, with single-family rentals likely to continue to capture roughly 37 percent of the estimated 3.9 million new renter households coming to market over the next five years.

The report also notes that this part of the real estate world "has traditionally been dominated by 'mom and pop' owners who do not benefit from a regional or national platform and/or industry-level expertise," adding "While institutional investors have been active acquirers in recent years, their portfolios still represent just one percent of the total single-family rental market."

Affordability issues play a large role in driving this market, according to Chris Czarnecki, president and CFO of Broadstone Real Estate, a Rochester, N.Y.-based sponsor of private real estate offerings and manager of commercial and residential properties in 37 states.

One of Broadstone Real Estate's units, Broadtree Residential Inc., is a private real estate investment trust that invests in residential real estate in several markets including metro Atlanta, where its portfolio includes 421 single-family rentals.

"On the investor side, it is very difficult to develop housing that is affordable for a broad constituency of the middle class," said Czarnecki, a situation reflective of the costs of land and development, which often leads developers to focus on higher-end product.

This creates a shortage of quality housing options for individuals, he notes, who in turn have to deal with affordability issues such as mortgage debt remaining relatively constrained, with higher underwriting standards and large down payment requirements for first-time home buyers.

Metro Atlanta is one of the more popular areas for investing in single-family housing, according to [Oliver Chang](#), managing director of Sylvan Road Capital LLC, an Atlanta-based asset management firm focused on investing in single-family residential rental housing.

The company's largely Southeast U.S.-oriented portfolio currently includes about 1,000 units in the metro area.

On a macro basis, "The Atlanta market has been very strong over the past several years," said Chang. Atlanta is one of the few large markets in the nation where household income exceeds national averages, while home prices are lower, "which makes the market affordable," according to Chang.

At “ground level,” investors find that “local projects such as the Atlanta Beltline are creating opportunities for revitalization and redevelopment all around the city, particularly within the downtown core and close-in suburbs,” he said.

A major factor that makes investing in Atlanta single-family rentals attractive is that home purchase prices have been going up at a relatively more measured pace than in many other markets, such those in California and some parts of Florida; and, importantly, have risen pretty much in line with increases in rents, according to Chang.

On the sales side, Chang notes that there has been a pickup in “flipping,” i.e., investors buying homes, fixing them up, and putting them back on the for-sale market.

2016 was a good year for that kind of business in metro Atlanta, but it was not without its challenges, according to Robert Thompson, managing director of Cornerstone Realty Partners Inc., an Atlanta-based homebuilder.

Rising lot and existing-home prices are driving flippers away from close-in markets such as Buckhead and Brookhaven and into more outlying markets like Chamblee, according to Thompson. And from the financing standpoint, “If you are not an A-plus borrower, credit is still hard to get,” he notes.

In the coming year, “If interest rates get too high, it might affect some of our pricing,” Thompson said. “I’m hoping that if the general thinking is that rates are going up, there will be a good-sized group of buyers that goes into the market to lock in a rate before they actually do go up.”

Whether they are entities intent on flipping or renting out homes, smaller investors, “from private companies down to the mom-and-pops” are currently making up a larger proportion of buyers in the residential investment industry, a trend that should continue into this year, adds Chang.

On the institutional side, “The very large single-family investors that entered the market about five or six years ago started buying at a very fast pace — but over the past two or three years that pace has really slowed down,” Chang said, adding that at this point in time, this segment of the industry is more focused on improving operations, more companies going public, and mergers.

“The big question five years ago was about whether the institutional participation was here for the long term or not,” said Chang. “I think we are very much seeing that they are, and are on track to improve and get better at what they do, which is very important for the industry going forward.”

And when institutions do their buying, Atlanta’s fast-paced population and employment growth continue to be major draws.

“We believe the Atlanta metropolitan area is a very attractive market for residential real estate in general,” said Lawrence Shapiro, chief operating officer of Silver Bay Realty Trust Corp. (NYSE: SBY), a Plymouth, Minn.-based national residential real estate firm that acquires, renovates, manages, and maintains single-family homes.

As of the end of third quarter 2016, the company owned 8,837 properties in 12 metro areas — with Atlanta topping the list at 2,694 homes.

Citing metro-area population and employment growth, “increases in both jobs and population will drive demand for single-family rentals,” Shapiro said.

“Home ownership rates remain at historic lows, and the low supply of new homes has not kept pace with household formation rates,” Czarnecki said. “Residents of Atlanta enjoy an excellent cost of living, and the city continues to experience vibrant job growth via the strong corporate base of the city.

“We continue to see strong rent growth in Atlanta, as compared to other markets nationally, because of the supply and demand imbalance.”