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Report: Single-family rentals more “hype” than substance

The emerging industry appears to have generated more attention that actual investment – and that has led to some misconceptions about the opportunity, according to one firm investing in the strategy.

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Buying and renting out distressed single-family homes has been one of the most talked-about US real estate investment strategies of the past year. However, the massive amount of attention that has been directed at the opportunity is disproportionate with the level of investment that actually has occurred to date, said a new report released today.

In the past nine months alone, the buy-to-rent strategy has attracted capital from numerous large private equity firms, hedge funds, REITs and institutional investors, according to a report from Sylvan Road Capital, an Atlanta-based asset management firm focused on single-family rental investments.

“Despite the surge of activity, it looks like there is currently more hype surrounding this investment than substance,” wrote Oliver Chang, managing director at the firm, in the report. “There seems to be more news articles, research reports, conference panels and press announcements than there are actual investments in actual houses.”

Chang previously served as head of US housing strategy at Morgan Stanley, where he wrote extensively about the single-family rental strategy, before leaving the firm and co-founding Sylvan Road earlier this year.

The amount of institutional capital that has been raised or committed to single-family rental investing is estimated to be as high as $8 billion, but while that is a substantial amount of money, it “is less than 1 percent of any reasonable estimate of the size of this actual opportunity,” he said.

Chang went on to say that while much of the attention surrounding single-family rental investing has generally been positive, “one of the issues with hype is that it often glosses over the details,” which has led to a number of misconceptions, the most significant being that all investments in distressed single-family homes are the same.

“The truth is, this couldn’t be farther from the truth,” he said, noting that houses can vary widely in terms of maintenance issues relating to the climate in which properties are located, as well the amount of risk involved and the extent of renovation or repairs required. Such differences lead to different costs and types of required renovations, different levels of maintenance and expected repairs, and different risks of property damage such as frozen pipes or termite infestations.

Such differences are critical when considering investments in single-family rentals. “Not all distressed investors are the same, not all distressed investment strategies are the same and not all distressed investments will succeed,” said Chang. “There are going to be some failures so it’s probably important to know exactly what you’re investing in.”

He pointed out there were two primary investment strategies with divergent risk/return profiles. The majority of larger investors, Chang said, were macro-housing traders that are focusing not on rental yields, but future home price recovery. Niche players, which include Sylvan Road, however, invest on the premise that total returns are more dependent on rental yields and value will be created on the investment through extensive renovations and time.

“While only time will tell how this new burgeoning industry plays out, we believe that when it comes to success, the differences between distressed housing products, investment strategies, risk/return profiles and operations can make all the difference in the world,” he said.

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