Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

JLL Targeting Single-Family Rentals

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THE GRAPEVINE

Richard Reczka left **Vornado Realty** at yearend after 18 years. He was a senior vice president focused on capital markets and acquisitions for the New York REIT, which he joined in 2002. Vornado last month announced 70 layoffs to cut costs. As previously reported, those departures included another senior vice president and acquisitions pro, **Mario Ramirez.** The circumstances of Reczka's departure and his plans are unclear.

ActivumSG Capital has tapped **Andrew Isikoff** to lead the firm's expansion into North America. Isikoff, who joined this month as a managing director in Manhattan, is responsible for all investment activities in the region. The fund shop,

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Oakland Offices Leased to Square Re-Listed

A downtown Oakland office trophy at the center of a high-profile deal that collapsed at the onset of the coronavirus pandemic is back on the block.

CIM Group has dispatched **Newmark** to market the 405,000-sf Uptown Station once again. The building, leased by a technology company whose market capitalization has soared during the coronavirus crisis, is expected to fetch up to $420 million. That $1,037/sf valuation would shatter the pricing record for the San Francisco East Bay area.

Early last year, **Blackstone** agreed to pay slightly less for the recently repositioned property. However, amid mounting concerns about the lending market, it walked away from the deal — and a $20 million deposit — shortly after the pandemic was declared last March.

Conditions in the debt and investment-sales markets — especially for properties leased to single, credit-rated tenants — have since improved. The profile of the

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Teams Ramp Up Fight for Texas Office Deals

The stage is set for a battle of the brokers in Texas.

In a series of moves over the past 15 months, firms raided one another for top talent and brought in more firepower. Now, all five major brokerages — **CBRE, Cushman & Wakefield, Eastdil Secured, JLL** and **Newmark** — have heavy hitters in place to pursue office listings in the Lone Star State. More hiring is expected as they look to put additional boots on the ground in the biggest markets: Austin, Dallas, Houston and San Antonio.

The firms are betting on a surge in investment sales as the state rebounds from the coronavirus crisis. Local pros point to a wave of corporate relocations announced in recent months by the likes of **HP Enterprise, Oracle** and **Tesla** as evidence the state is poised for more growth.

"Texas has been attracting people and companies from the coasts, even before the pandemic, and that trend is likely going to accelerate," said **Russell Ingrum,** a

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New Players Eager to Pounce on Hotel Deals

To a growing number of investors, this looks like the right time to get into the hospitality business.

Attracted by low valuations and the expectation of a strong recovery, players including wealthy individuals, family offices, private investment firms and newly formed shops are plotting an entrance into the hotel space.

"There are not just a handful of emerging buyers, but a significant number of new players in the space," said **Adam Etra,** vice chairman and co-head of **Newmark's** lodging capital markets group. "A lot of these investors can be incredibly nimble and creative ... not only can they acquire assets, but they can also play up and down the capital stack."

The hotel business has taken a drubbing amid the economic downturn triggered by the pandemic. Social distancing requirements brought leisure and business travel to a halt starting last March, sending occupancy levels to new

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JLL has formed a capital-markets unit focused on single-family rental properties, positioning itself to capitalize on increasing interest in the niche asset class among institutional investors.

JLL appears to be the first national brokerage to assemble a team dedicated to single-family rental deals, but others are taking a close look at the sector. **Eastdil Secured** is said to be furthest along in that effort.

JLL's move marks the first time it has targeted a new asset class in nearly a decade. The newly formed team includes managing director **Chris Shea,** who is based in New York, and senior directors **Matthew Putterman** in Houston and **Zach Nolan** in the Tampa Bay area. Overseeing the effort is **Bill Miller,** co-head of JLL's National Multi-Housing Group, based in Dallas. The group will handle both equity and debt transactions.

Miller said increasing numbers of institutional investors are being drawn to the single-family rental sector by a demographic trend in which renters are moving from cities to suburbs to take advantage of lower-density housing — coupled with an undersupply of single-family product. The trend, which has been evident for some years, has accelerated during the pandemic.

In the next few years, Miller sees the sector maturing into a higher-profile institutional asset class similar to multi-family housing.

"There are enough tailwinds in the industry that we felt we needed to get out ahead of this and be a leader in this space and communicate this to our clients to better serve them," he said. "It's such a new product type and industry, and right now there is very little sharing of information happening. No one is tracking this space on a national level, and our clients are telling us they need expertise and advisory."

For decades, single-family rental properties were the exclusive domain of mom-and-pop investors. That started to change in the aftermath of the Great Recession, when Wall Street investors led by **Blackstone** snapped up homes in foreclosure, converted them to rentals and packaged them in real estate

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investment trusts.

By last year, institutional players owned portfolios totaling more than 200,000 homes with an aggregate value of about $30 billion, according to **Urban Affairs Review.** The field is led by **Invitation Homes,** which spun off from Blackstone in 2017; **American Homes 4 Rent; Progress Residential;** and **Tricon Residential.** In August, Tricon raised $300 million of preferred equity from an investor group led by Blackstone Real Estate Income, a non-traded REIT managed by Blackstone.

But even now, institutional owners account for a mere 2% of the single-family rental market, according to the **National Rental Home Council,** a Washington-based trade group. By comparison, institutional investors own 55% of multi-family rental units.

Market pros said one reason for the lack of institutional-investor interest in the past is the dispersed nature of the single-family rental market, which makes managing assets on a large scale difficult. But now the strategy is shifting away from buying existing properties that are widely scattered to the construction of single-family rental developments that can be managed like traditional multi-family complexes.

"The [single-family rental] sector is certainly creating significant investor and developer interest," said **Brian McAuliffe,** president of **CBRE's** capital-markets division. "CBRE has already completed several transactions in this space and we will continue to increase our service capability to satisfy the needs of our clients."

Said JLL's Miller: "In the next few years, there will be an influx of single-family rental units that will be built and leased, and there needs to be capital available, whether it's a refinance or a sale. There is enough product coming in the next five years that we needed to get out ahead of it."

That growth is spurring first-time or additional investments from an increasing number of institutional players. In July, **Brookfield** acquired a controlling stake in **Conrex,** which owns more than 10,000 rental properties in the Midwest and Southeastern U.S. In September, **Nuveen Real Estate** said it would invest up to $400 million in single-family rentals via a newly launched platform called **Sparrow.** And in October, **Rockpoint Group** announced separate joint ventures with **Resicap** and Invitation Homes that could see it build a $2.5 billion platform.

"The biggest driver of institutional interest to this space now would be that these investors have found a way to access the coveted renter demographic with the efficiency of a single location and the efficiency that single locations bring from a financing perspective," said **Sudha Reddy,** managing principal at **Haven Realty Capital,** an El Segundo, Calif., firm that manages a $500 million portfolio of single-family rentals and traditional multi-family properties. "For institutional investors who are not in the single-family space, dipping their toes into an investment with a single location feels a lot more like what they're used to."

Haven and partner **Walton Street Capital** of Chicago recently closed on the first phase of a $133.7 million acquisition of six purpose-built single-family rental communities in Atlanta. The seller, local developer **ResiBuilt,** is constructing 537 rental homes. In the next 18 to 24 months, Reddy said, Haven expects to close on the purchases of an additional 700 single-family rentals and townhomes in the Southwest and Southeast valued at $1 billion.

Demand for single-family rental assets is being fueled by record high occupancy and rent growth. According to **DBRS Morningstar,** rents among properties in institutionally owned portfolios increased more than 3% in 2020.

Another factor driving demand: Investors have found a ready source of cheap financing in the bond market, where securitizations of single-family-rental cashflows have mushroomed. In 2020, a record 18 deals totaling $9 billion priced — more than double the 2019 volume of 11 deals totaling $3.8 billion, according to a database maintained by sister publication **Asset-Backed Alert.**

John Pawlowski, a senior analyst at **Green Street,** the parent of **Real Estate Alert,** said the single-family rental sector is shaping up to be the most defensive of the residential asset classes. In a report last month, Pawlowski revised his 2021 net operating income growth estimate upward by 200 bp, to an average of about 6%.

"It's one of the few investment strategies in the rental-housing space that caters to families," Reddy said. "If you look at traditional multi-family, the unit mix tends to cater to singles or doubles, [with] one-bedroom and two-bedroom unit mixes. What Covid has done is really accelerate the move of families and individuals seeking more space. There is simply not enough supply to meet the rental demand and to meet homeowner demand right now." ❖