

ATLANTA NEIGHBORHOOD DEVELOPMENT PARTNERSHIP

A LOOK AT PRIVATE EQUITY INVESTORS AND THE ATLANTA FORECLOSURE RESIDENTIAL MARKET

A ULI mTap by:
Chris Campbell
Katie Elliott
Ronit Hoffer
Mike Minutelli
Jon Toppen

May 1, 2013

AGENDA

- **Pros vs. cons**
- **30045 research**
- **Profiles of larger investors**
- **Current inventory**
- **Today's capital landscape**
- **Summary**
- **Open Questions**

RECENT HEADLINES

**“Phoenix Picked Clean, Private Equity Descends on Atlanta”
(Bloomberg, 10/17/12)**

**“Why What's Happening in
Atlanta Should Matter to You”
(Huffington Post, 2/4/13)**

**“Blackstone Crowds
Housing Market as Rental
Gains Slowing”
(Bloomberg, 3/18/13)**

**“A New And Different Housing Bubble
Is Taking Shape”
(Business Insider, 3/19/13)**

**“Big business bets billions
on Atlanta's housing
recovery”
(Creative Loafing, 1/24/13)**

**“BLACKSTONE BUYS
ATLANTA HOMES IN
LARGEST RENTAL TRADE
(BLOOMBERG, 4/25/13)”**

PRO ARGUMENTS FOR INSTITUTIONAL OWNERSHIP

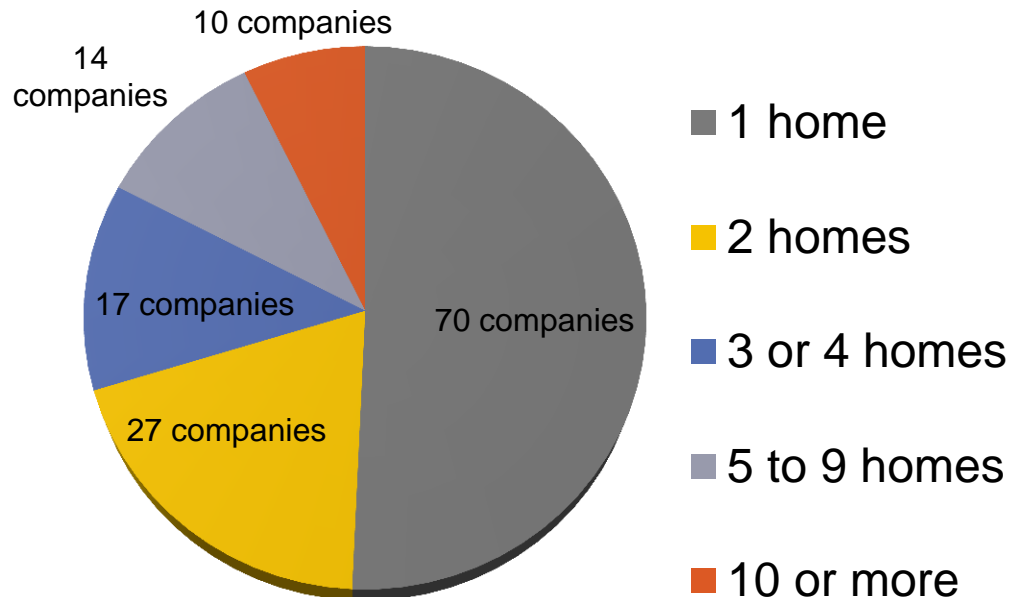
- Institutional ownership offers much greater stability to a neighborhood than “mom & pop” investors
- Strict underwriting leads to qualified renters and sustainable models
- Maintenance standards and home quality set by investors
- Average single family renter will stay in a house for 36 months as compared to 18 months for apartment rentals
- Antiquated view that SF rentals are bad.
- Not wise for Americans to have 90% of their net worth tied to one investment
- Allows renters to be more flexible to move where jobs are. Helps to improve overall job market
- To date, institutional investors have purchased approximately 100,000 sf homes in the US. This is a fraction of the 13 Million homes for rent in the US
- Estimated that there has been less than 20,000 homes purchased by institutional investors in Atlanta to date

CON ARGUMENTS FOR INSTITUTIONAL OWNERSHIP

- Housing prices will artificially inflate due to private equity willing to pay higher prices for assets. Will this create another housing bubble? Does this limit a true recovery driven by long-term home ownership?
- Irresponsible investing with Wall Street leverage allows for purchases at above market values
- Financial models deal with speculation which damaged the housing market in the first place
- Problems with detached ownership. Could this lean to slumlord ownership?
- Do communities with high percentage of rentals depress overall housing values?
- Institutional ownership takes away the fabric of the neighborhood. They do not care about their residents and only see them as a value proposition
- What happens if an institutional owner faces financial difficulties?

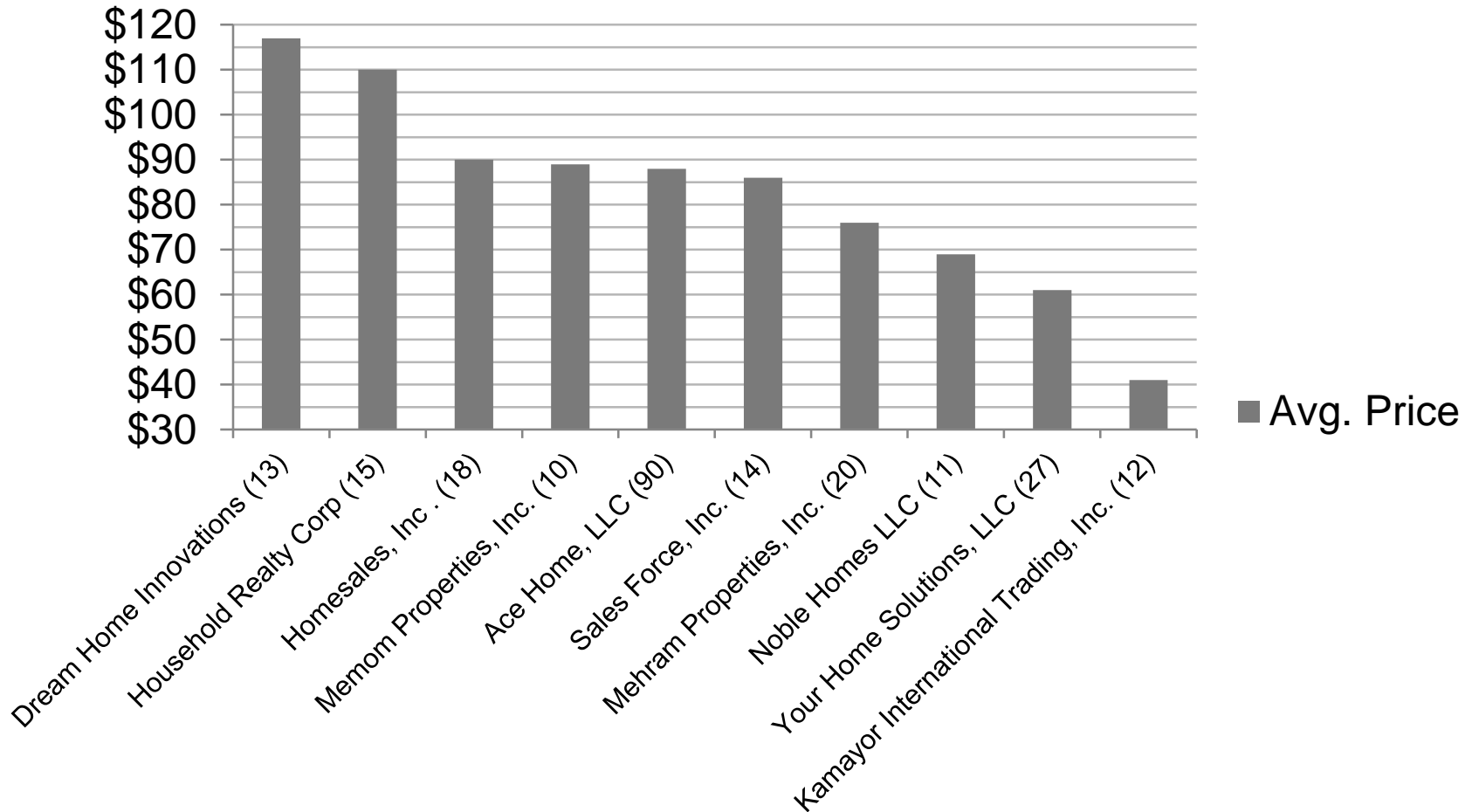
30045 (LAWRENCEVILLE) ANALYSIS

- Over 7,500 transactions between January 2011 and June 2012. Nearly 90% were acquired by a corporation.
- Of the corporate acquisitions, over 90% of those were mortgage companies and/or banks.
- 138 (non-bank) corporations purchased just over 500 properties priced at \$350K or less



WHO ARE THEY, WHAT ARE THEY BUYING?

Average Purchase Price (000's)



PRIVATELY HELD INVESTMENT FIRMS

Amalgamation of strategies of several firms interviewed

Financial Model

- Long hold period – 10+ years
- Expect returns 6-8% annually
- Either sell assets when they have made a mistake; or seek appreciation but rent in meantime
- Continuously re-invest and maintain asset

Investment Strategy

- Detailed analytical approach to each asset acquired
- Targeted homes in best school districts, sometimes other areas if Section 8 available
- Value-investors—mostly looking for undervalued properties

Management Strategy

- Some buy in concentrated neighborhoods for economies of scale
- Subsidiary management company
- Home owner or public-sector worker incentive programs

Average Investments

- Avg. Rent - \$1,000 – 1,400/month
- Avg. Purchase - \$70,000 to 90,000
- Avg. Rehab costs – \$20,000 to \$40,000

Now operating in several states but researching many others

SILVER BAY MODEL (NYSE: SBY)

Financial Model

- *Expect to see mid to high single digit annual appreciation over the next 5 to 7 years*
- *For portfolio, yields are just over 11%*
- *Currently, using IPO funds to acquire, but will eventually look at debt with 30 to 50% LTV*

Investment Strategy

- *Opportunistic stance toward investing and maintaining disciplined approach to growth*
- *Acquiring \$40-\$50 million per month or 300 – 400 properties*
- *Proximity to key employment centers and school districts*
- *Stabilization process of approximately 6 months*

Management Strategy

- *Provide high quality rental homes with best-in-class customer service*
- *Lease through brokers, newspaper ads, website marketing*
- *Goal is to maintain 90% occupancy*

Average Investments

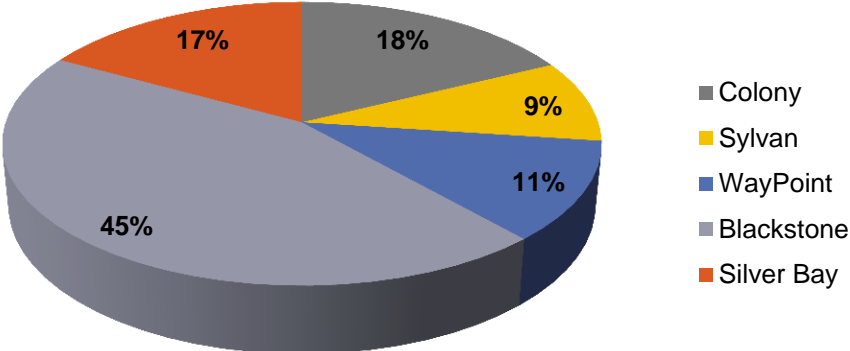
- *Typical investments approximately 15% of purchase price. Actual cost depends age and condition of property*
- *In Atlanta, 313 leased properties with \$1,191 average rental rate*
- *In Atlanta, average cost basis per property is \$111,000*
- *Average age is 14.9 years and around 2,000 sf*

Currently operating in 7 states – AZ, GA, CA, FL, OH, TX, NC



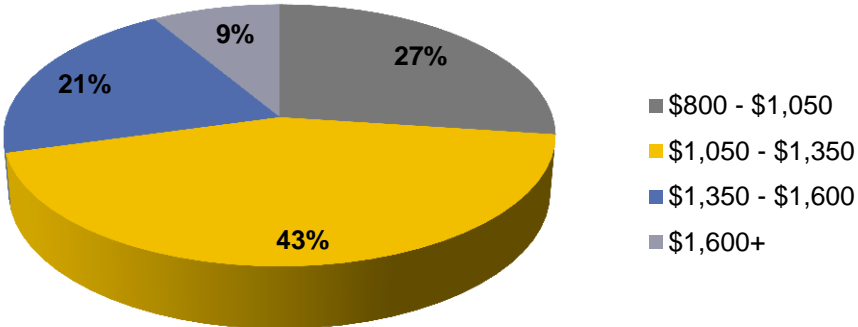
MAPPING THE RENTAL MARKET

Single Family Homes for Rent in Atlanta



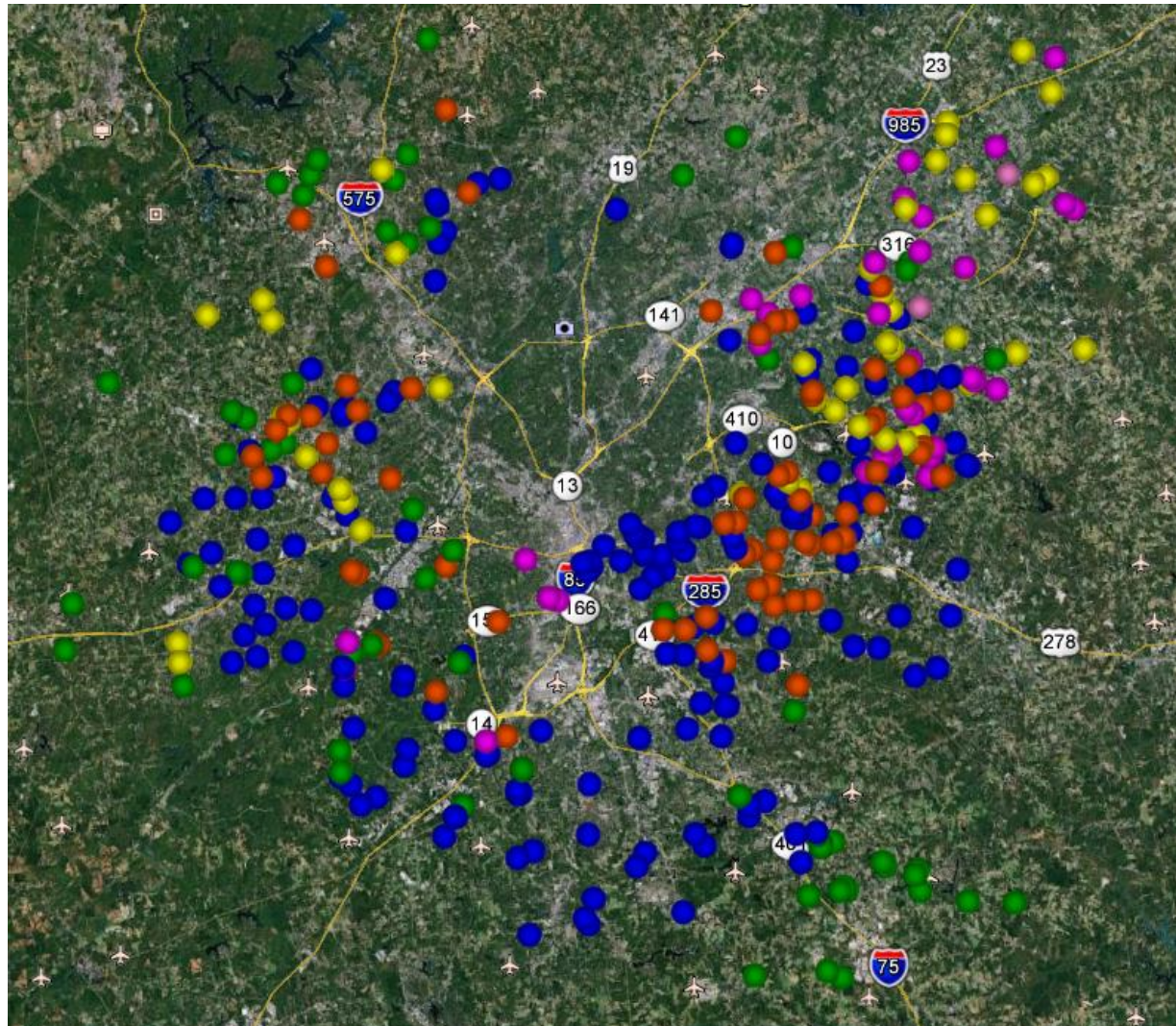
406 housing units for rent between 5 private equity investment firms

Single Family Homes for Rent by Price Point



Source: Information obtained from company websites. If available, searched within the 20-mile metro radius.

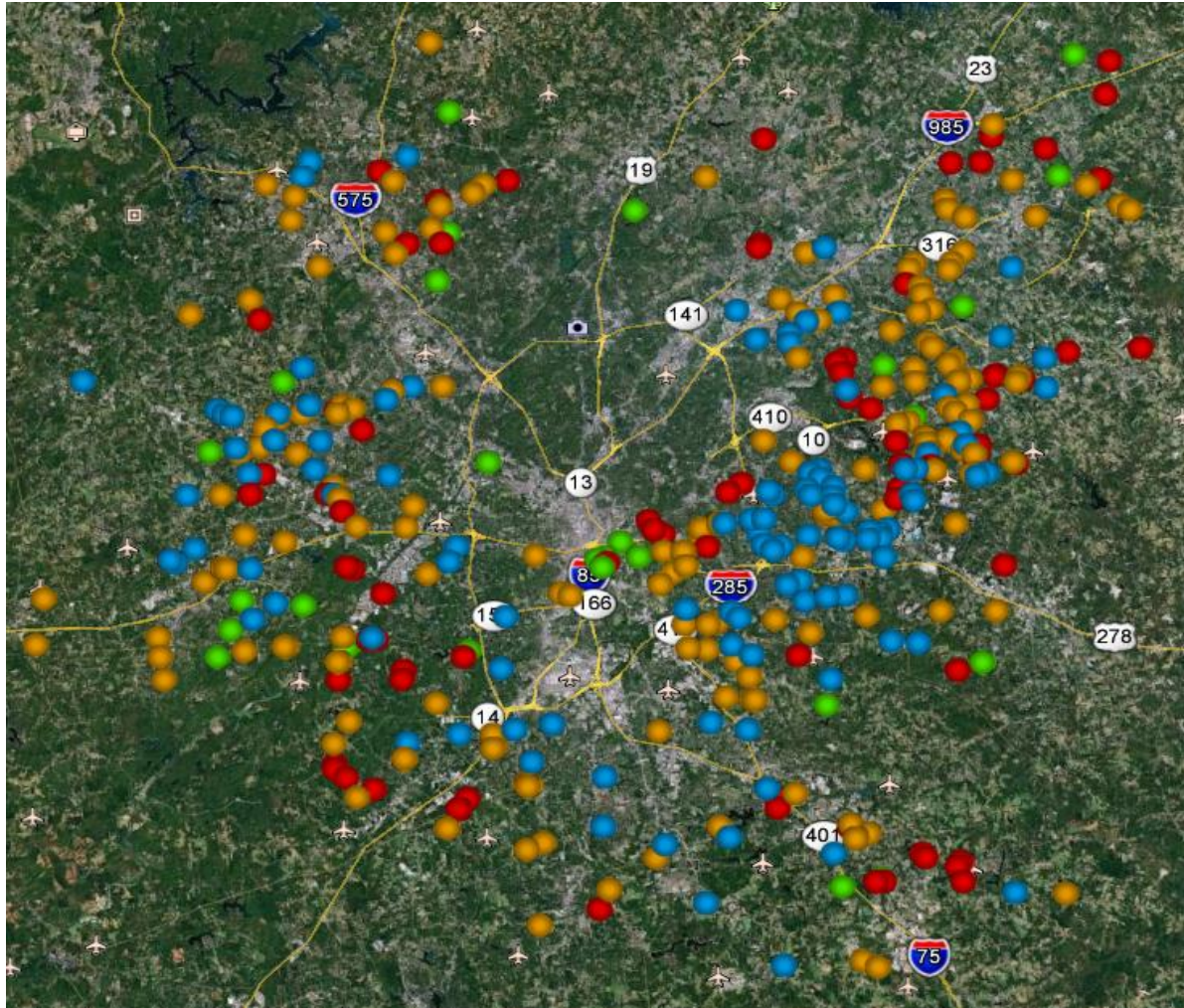
SINGLE FAMILY HOMES FOR RENT IN ATLANTA



- Blackstone
- Silver Bay
- Colony
- WayPoint
- Sylvan

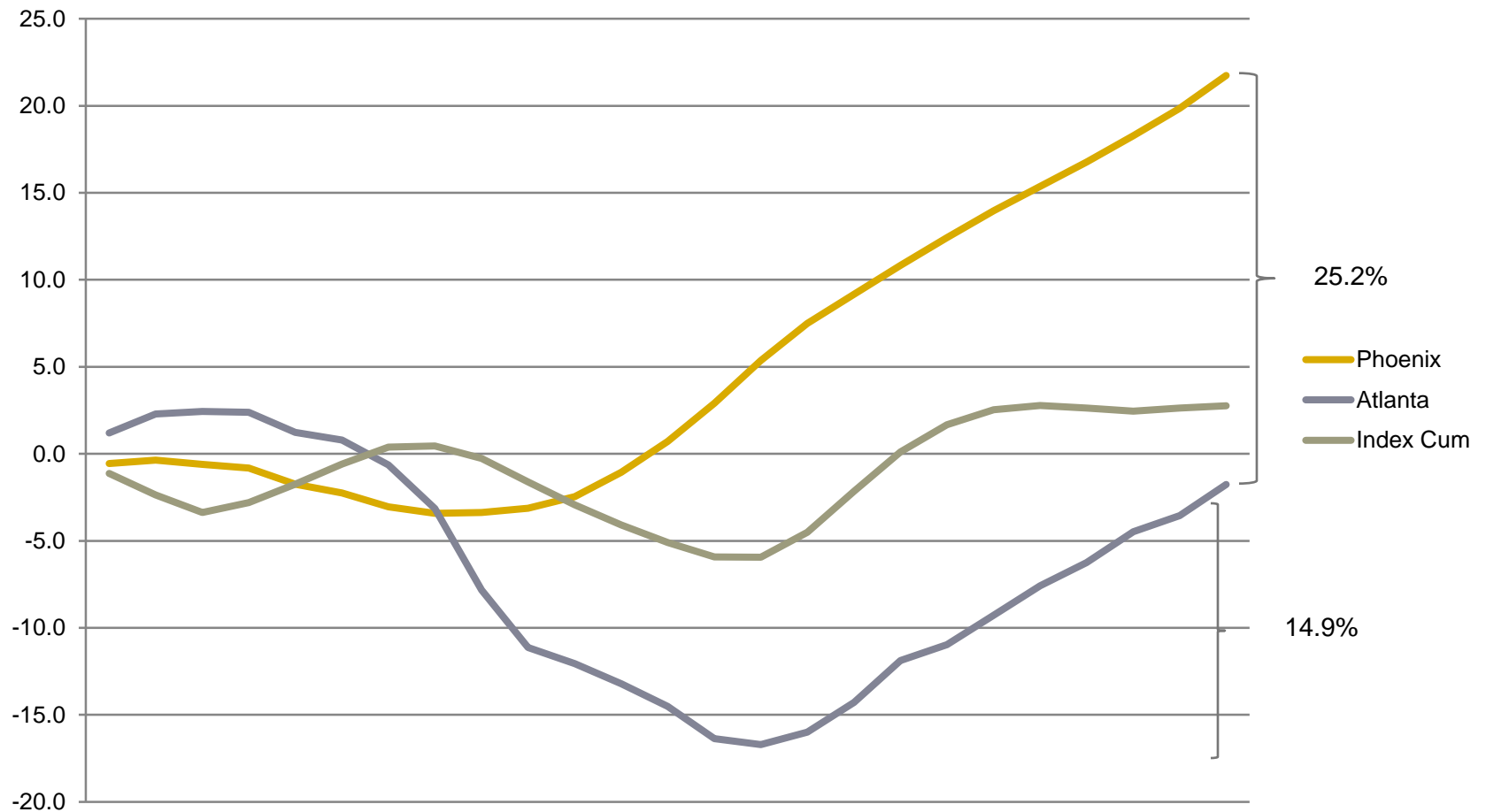


SINGLE FAMILY HOMES FOR RENT BY PRICE POINT



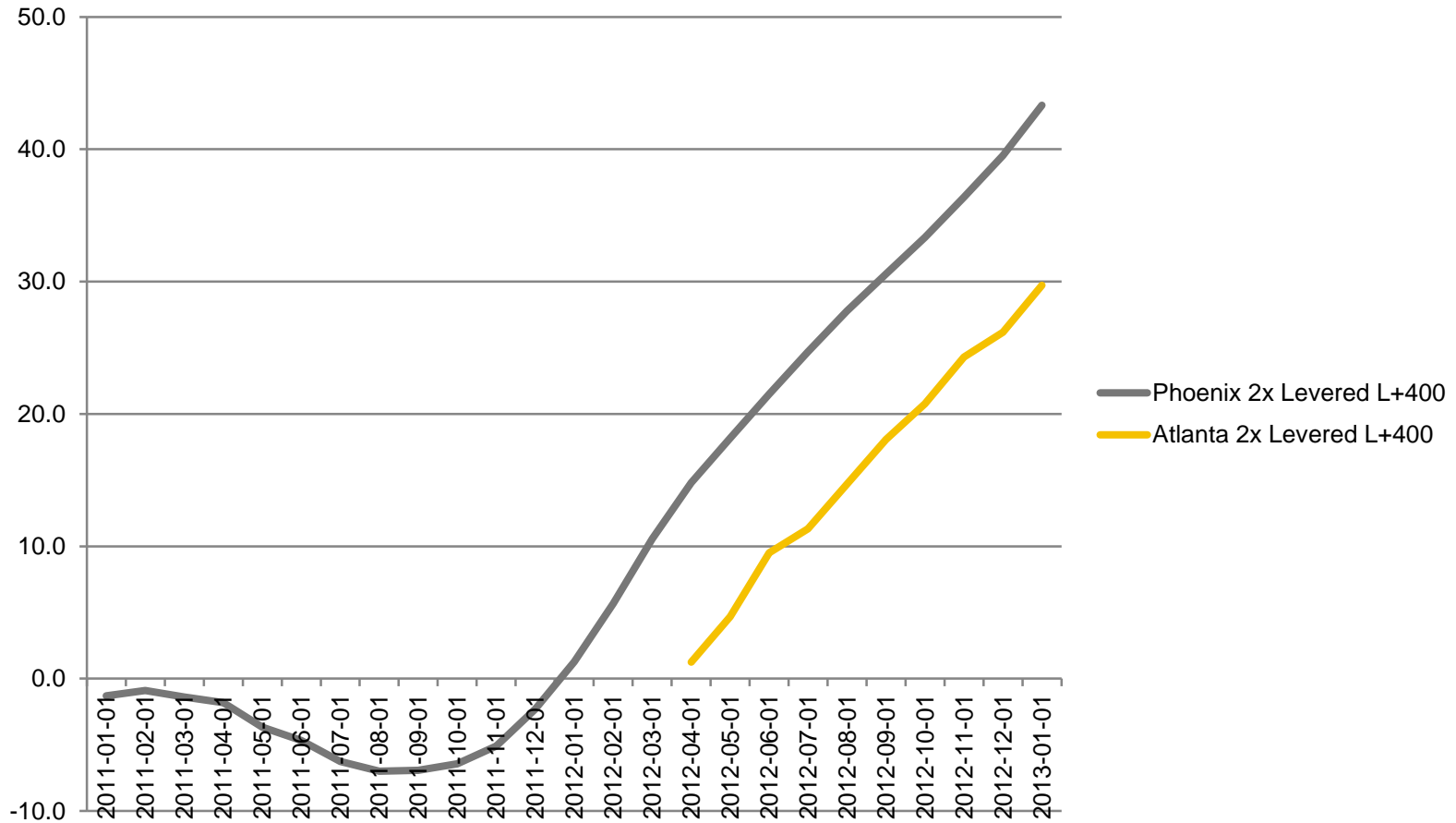
- \$800 - \$1,050
- \$1,050 - \$1,350
- \$1,350 - \$1,600
- \$1,600+

PHOENIX VS ATLANTA 2YR HOUSING APPRECIATION



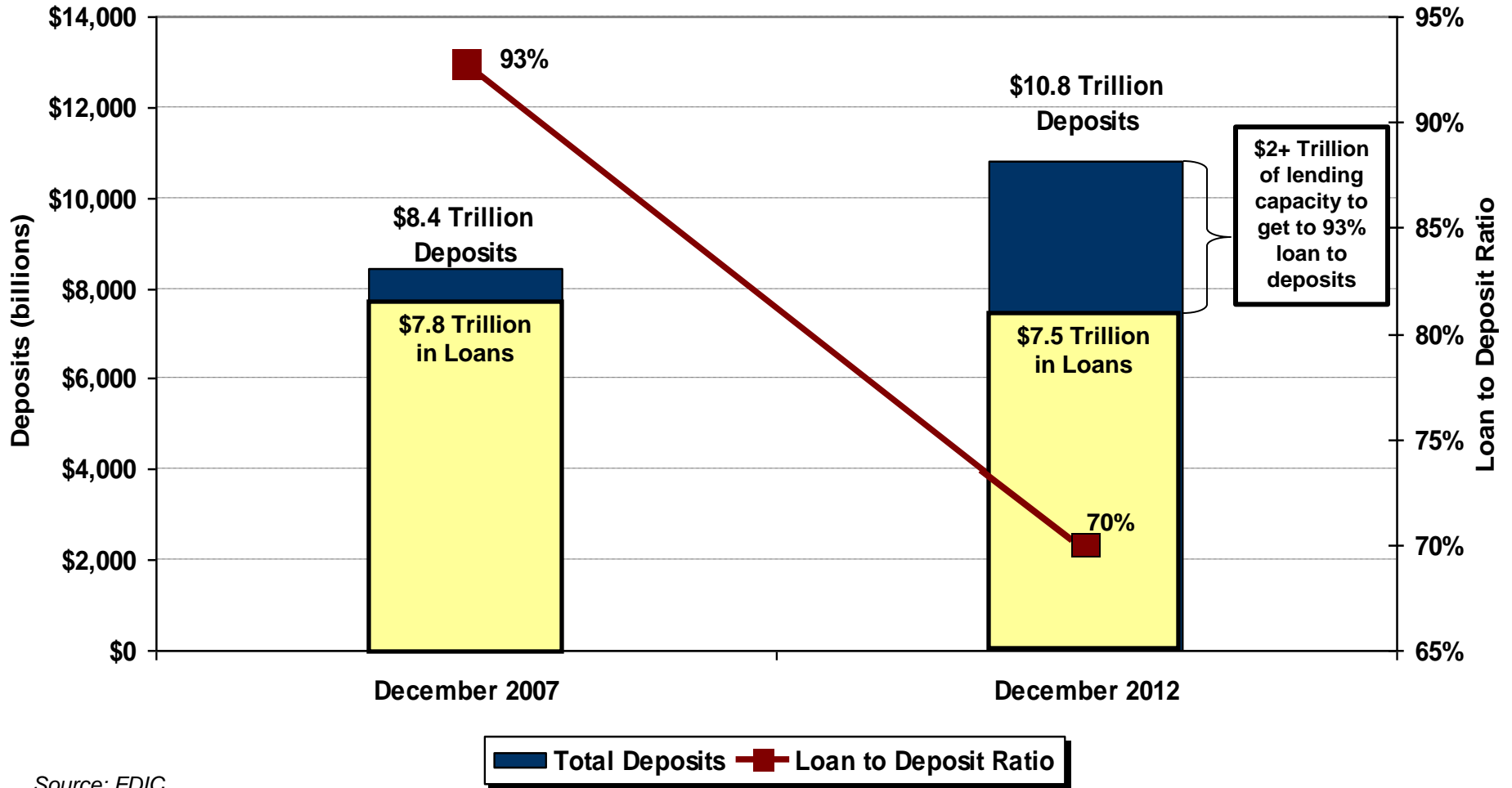
Source: St. Louis Federal Reserve

LEVERED RETURN ANALYSIS



Source: St. Louis Federal Reserve

U.S. BANKS LOAN-TO-DEPOSIT RATIO



Source: FDIC

HOW LONG TO REACH 6.5% UNEMPLOYMENT

JOB GROWTH	LABOR PARTICIPATION RATE		
	63.0%	63.3% (Today)	66.4% (2007)
150,000/month	1.1 yrs	3.5 yrs	16.7 yrs
168,000/month (Last 3 months)	1.3 yrs	2.2 yrs	12.3 yrs
250,000/month	0.3 yrs	1.1 yrs	4.8 yrs

Source: Bureau of Labor Statistics & Federal Reserve Bank of Atlanta

SUMMARY

- Not every zip code is benefiting
- Room for small players in certain zip codes
- There is still a huge amount of rental stock coming to market as big investors cycle through their stabilization process
- Vast majority of transactions in 30045 zip code are still foreclosure that haven't been purchased by investors yet
- The big investors claim to be long-term holders for rental. Small investor time horizon is unclear
- Very few investors are willing to publically share their strategies
- Current capital markets climate would indicate that this investment thesis is likely to continue to be profitable

OPEN QUESTIONS

- Can larger investors successfully manage properties over the vast Atlanta MSA?
- Will the housing market improve sufficiency to allow owners to flip houses bought speculatively?
- Will larger investors force smaller rental house owners to improve their properties and better leasing standards? Or are they more likely to cater to tenants with poor credit/criminal/immigration issues?
- What other large scale investors will enter the Atlanta market?
- Will any investors focus on lower income neighborhoods? How can investment in these neighborhoods be economically feasible?
- Is this large scale single-family investment model simply a short-term result of the housing market collapse or is it a permanent shift in the housing market?

ANNEX 1

Are Institutional Investors Driving the Market in Atlanta from the bottom up?

- 29% increase in home prices in metro Atlanta in February 2013
- 60% increase in home sale closings in metro Atlanta in January 2013
- 67% increase in number of building permits in metro Atlanta in February 2013
- 65% increase in number of building permits in Cobb County in February 2013

*all figures provided by SmartNumbers, LLC and calculated as year over year

INTERN JOB DESCRIPTION

Job Summary

- Temporary position providing real estate research and analysis for ANDP

Typical Responsibilities

- Contact internal and external resources for information used to create databases, surveys and reports. Research homes in the market to collect competitive market knowledge for case studies and/or maintaining internal databases on residential foreclosure market research
- Research potential clients and provide relevant information for client development efforts
- Use of Google Earth to map the single-family residential rental market