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Blackstone, big investors slow their $800 million Tampa Bay home-buying binge

Drew Harwell, Times Staff Writer

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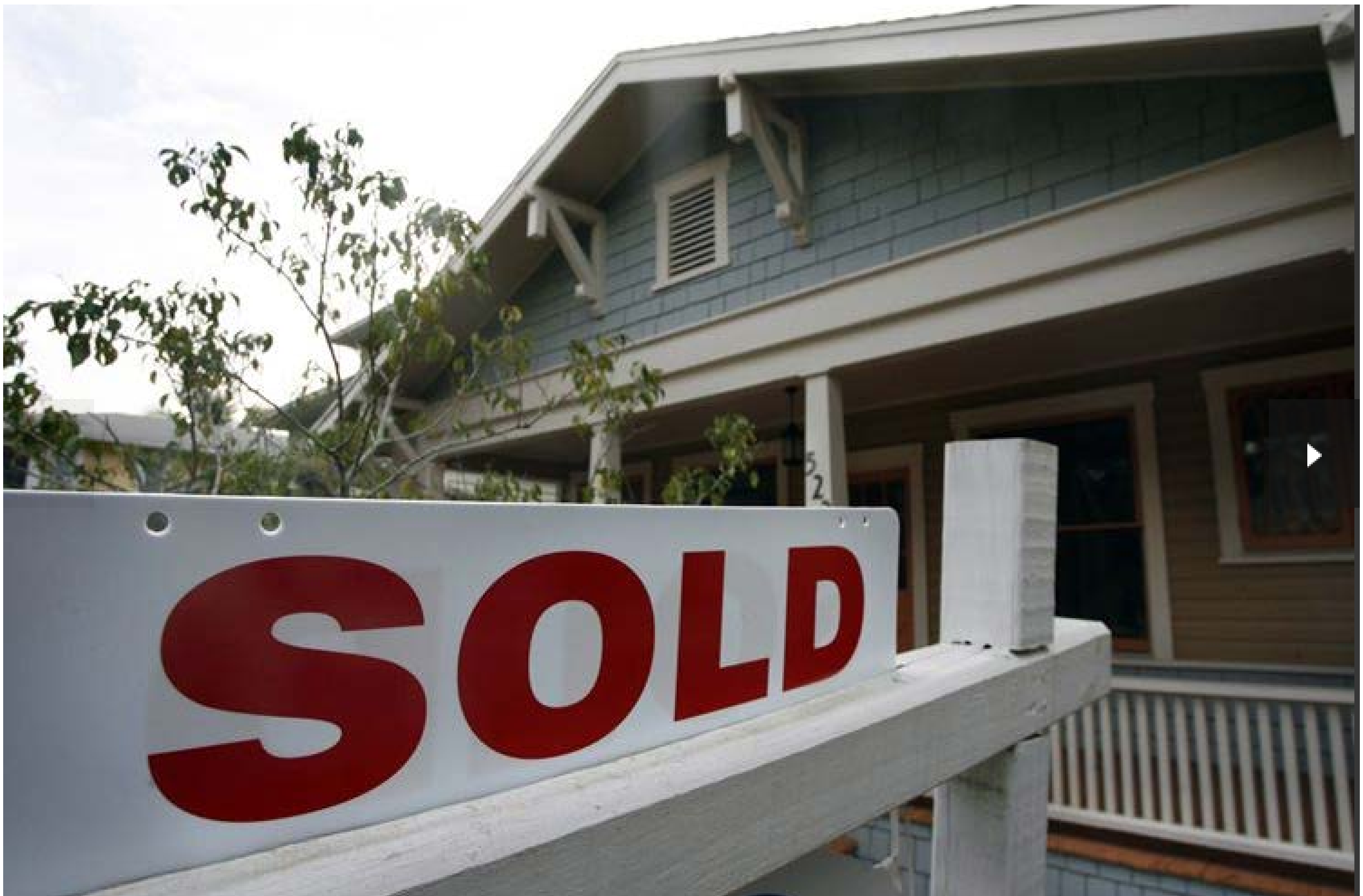

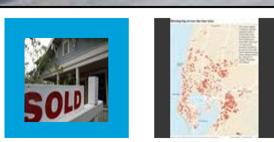

After an $800 million binge on Tampa Bay homes, big investors are finally catching their breath, pulling back on buying due to rising prices and market doubts, a *Tampa Bay Times* analysis has found.

The seven biggest investment groups buying homes here spent half as much cash in August as they did in March or April, when their shopping sprees peaked at about 500 homes a month.

Invitation Homes, the brainchild of multinational investment giant Blackstone, continues to lead the pack with more than $300 million in homes, but even its spending has plunged. The firm spent $40 million locally on homes in March but only about $20 million every month since.

Deep-pocketed hedge funds, private-equity firms and investment trusts parachuted last year into neighborhoods hardest hit by the housing crash, aiming to scoop up foreclosures and other single-family homes sold at "distressed discount."

But in an untested twist to the buy-fix-flip model, investors joined small-time speculators and mom-and-pop landlords by turning their homes into rentals. Since then, they've built a shadow industry of agents, carpenters and managers to find, repair and run the homes.

With more than 5,000 local homes on their books, these seven risk-capital titans from New York, California and elsewhere have become some of the most influential forces during Tampa Bay's housing recovery.

So why are they hitting the brakes now? Sudden jumps in home prices are souring bargains. Competition among institutional and international investors is fierce. And many are moving onto the next step of their operation, running the thousands of renovated rentals they're expecting will net them big returns.

But the buying slowdown may stem from more than just logistics. The vanishing home deals, unproven business model and home-management nightmares are leading some market watchers to question whether the investors' newborn rental play is a business that's built to last.

• • •

When investors first landed here in pursuit of fire sales, each had their own idea about what homes would prove the safest bets. Most tended toward newish cookie-cutters with three bedrooms, two bathrooms and no big necessary repairs.

Their biggest harvests came from the suburbs, where prices on boom-era subdivisions had plunged. Four out of 10 homes bought by big investors are in Tampa, Riverview and Valrico, the *Times* analysis found. Brandon, Land O'Lakes and Wesley Chapel were also in demand.

Many investors compiled data on everything from school ratings to crime rates to see how renters might feel about moving into the neighborhood. Others based their bets on cosmetics, avoiding homes with stucco coats or cedar siding.

"We do granular analysis on many thousands of assets," David Miller, the chief executive of Silver Bay Realty Trust, which owns more than 900 Tampa Bay homes, said last week, "and ultimately only buy a few dozen."

But as buying ramped up, rising home prices carved into investors' expected yields. When Blackstone made its first deals here in August 2012, it paid an average of $125,000 per home, the *Times* analysis found. Within eight months, that jumped to $175,000.

Investors are guarded about their strategy, but they contend rising home prices have played "a factor" in their slowdown. While Invitation Homes' buying is "not as rapid as in the company's early stages, our acquisition activities have continued steadily," a representative wrote to the *Times*.

The slowdown after months of frenzied buys has not gone unnoticed. Local investors who compete with the firms for homes say investors have become less cavalier with their spending during foreclosure auctions and bidding wars.

Some local investors suggest the big seven firms have grown wiser to the dangers that lurk in the volatile market. Investor agents, they said, have been burned by overpaying at auctions or by snatching up troublesome homes sight unseen.

At the peak of their buying, investors weren't above overspending to get what they wanted. Invitation Homes, for instance, bought a $205,000 New Port Richey home in March for nearly double what it had sold for two months earlier, property records show. And Progress Residential, which owns more than 400 local homes, bought a Lutz home in April for $72,000 more than it sold for just two weeks earlier.

Investors contend their shift away from buying will help them refocus on making money off their supply. Invitation Homes said it is spending less time on bulk buying and more time on building the systems needed to lease, maintain and manage its 32,000 homes across the country, including 8,000 in Florida.

In addition, buying homes at bottom dollar has become exceedingly tough. The big seven real-estate funds aren't just wrestling with each other. They're battling mom and pop home buyers who leave handwritten notes on doorsteps and burgeoning investment funds hefting war chests from Canada and South America.

"The level of capital being allocated by outside parties has forced somewhat of a reduction in the investments," said Jack Corrigan, the chief operating officer of American Homes 4 Rent, a California investment trust that owns about 800 Tampa Bay homes. "There will be a handful of large survivors that have the operational scale and ability to run a business."

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There's no doubt that rentals remain in demand. American home ownership is at a 17-year low, rental rates are growing and vacancies are low. Silver Bay, a Minnesota trust, has leased out all but 19 of its 704 renovated Tampa Bay rental homes, Securities and Exchange Commission filings show.

But stock traders have so far shown investors a chilly welcome. Silver Bay is trading at 15 percent below its December offering price; American Homes 4 Rent's price has barely budged. Colony American Homes, a New York investment trust, postponed its plan to go public in June. And winning new business hasn't guaranteed success. In June, American Homes 4 Rent was signing four new leases for Tampa Bay homes a day, its highest pace of new business all year, SEC filings show. But the trust, which owns 20,000 homes across 22 states, has also slashed 15 percent of its workforce this year, including a round of firings after a disappointing initial public offering in July.

Some rental investors are already cashing out. Soured on lower-than-expected rental returns, Oaktree Capital Group is looking to sell 500 leased homes in the western United States. Another hedge fund began selling a portfolio of 300 California homes last year. And a recent ORC International survey found about half of polled investors planned to trim their home purchases over the next year.

The investment slowdown locally has been good news for traditional home buyers, who have seized more of the market and now battle fewer all-cash offers from moneyed investors. Tampa Bay's cash deals, which ate up 53 percent of January's home sales, dropped to 40 percent in August, listing data show.

It's also welcome news to housing advocates who say investors have inflated home prices and forced out first-time home buyers in middle-class neighborhoods. Al Pina, the head of Tampa's Florida Minority Community Reinvestment Coalition, wrote in a letter to federal regulators, "These investment groups are nothing more than parasites and predators who prey upon the weak."

Tampa Bay property records show investors haven't begun to sell their homes, evidence they're sticking with the rental model and not skipping to their endgame of selling homes at appreciated prices. And renters and neighbors have celebrated what investors' millions have done to fix up blighted homes.

Ultimately, the big firms will not just have to fill the homes with renters, but show their financial backers that their big bet will pay off.

Said Corrigan, the American Homes 4 Rent executive: "If it turns out (to be) a long-term business, and rents keep rising with the inflation in house prices, all our investors make a lot of money, and that's not a bad place to be."

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Tampa Bay's biggest single-family landlords

INVESTOR	HOMES BOUGHT	ESTIMATED CASH SPENT
Blackstone's Invitation Homes	2,096	$326 million
Silver Bay Realty Trust	925	$121 million
American Homes 4 Rent	748	$121 million
Colony American Homes	664	$100 million
Progress Residential	439	$73 million
(formerly Fundamental REO)		
Beazer Pre-Owned	261	$42 million
Rental Homes		
Starwood Property Trust	312	$29 million

Source: *Times* analysis of property records, February 2012 through August 2013

By the numbers

The seven biggest investment groups buying homes in the Tampa Bay area spent half as much cash in August as they did in March or April, when their shopping sprees peaked at about 500 homes a month.

Invitation Homes, the brainchild of multinational investment giant Blackstone, continues to lead the pack with more than $300 million in homes, but even its spending has plunged.

$40M

How much the firm spent locally on homes in March

$20M

About how much the firm has spent every month since

As buying ramped up, rising home prices have carved into investors' expected yields.

$125,000

On average, how much Blackstone paid per home in August 2012

$175,000

How much Blackstone paid per home eight months later

Blackstone, big investors slow their $800 million Tampa Bay home-buying binge 10/04/13 *[Last modified: Saturday, October 5, 2013 7:56pm]*

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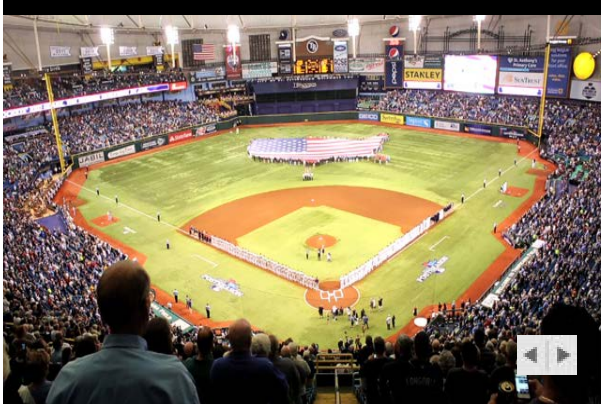

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