ATLANTA NEIGHBORHOOD DEVELOPMENT PARTNERSHIP

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

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AGENDA

• Pros vs. cons
• 30045 research
• Profiles of larger investors
• Current inventory
• Today’s capital landscape
• Summary
• Open Questions
“A New And Different Housing Bubble Is Taking Shape”  
(Business Insider, 3/19/13)

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

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

“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)
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

Source: SmartNumbers
WHO ARE THEY, WHAT ARE THEY BUYING?

Average Purchase Price (000’s)

Source: SmartNumbers
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

- Colony: 17%
- Sylvan: 18%
- WayPoint: 9%
- Blackstone: 11%
- Silver Bay: 45%

406 housing units for rent between 5 private equity investment firms

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

Single Family Homes for Rent by Price Point

- $800 - $1,050: 21%
- $1,050 - $1,350: 9%
- $1,350 - $1,600: 27%
- $1,600+: 43%
SINGLE FAMILY HOMES FOR RENT IN ATLANTA

Source: Company websites on April 30, 2013
SINGLE FAMILY HOMES FOR RENT BY PRICE POINT

Source: Company websites on April 30, 2013
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

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<th>JOB GROWTH</th>
<th>LABOR PARTICIPATION RATE</th>
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<td>66.4%</td>
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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