BUILDING TO RENT /

AHV PLANS NEW SINGLE FAMILY RENTALS

Mark Wolf attempts to prove that it's profitable to build detached homes for rent

BY LES SHAVER

BIG GOALS, BIG EXPECTATIONS 54
JAPAN'S SUMITOMO FORESTRY CO. MOVES INTO THE MID-ATLANTIC MARKET

Check out Mark Wolf's LinkedIn profile and you'll see a lot of multifamily references. He was a director at HFF, a mortgage banking firm that serves the apartment industry. After that, he co-founded Sicuro Realty Partners, a multifamily finance platform, and then he helped co-found Greenlaw Partners, a full-service real estate operating company that acquires, develops, and manages commercial real estate properties.

So it's not surprising that when Wolf launched AHV Communities, rental housing was part of the strategy. What is a little unexpected is what Wolf wants to rent, operate, and maintain: new single-family homes. Over the past half-decade, the single-family rental business has grown exponentially, as institutional and public investors have swallowed up quality operators. But the idea of producing new homes for rentals is something that hasn't been widely adopted.

THE STRATEGY

As Wolf worked financing apartment deals, he couldn't escape the potential in single-family housing. The demand was there, but managing houses scattered around metro areas and even across states was much harder than operating an apartment building.

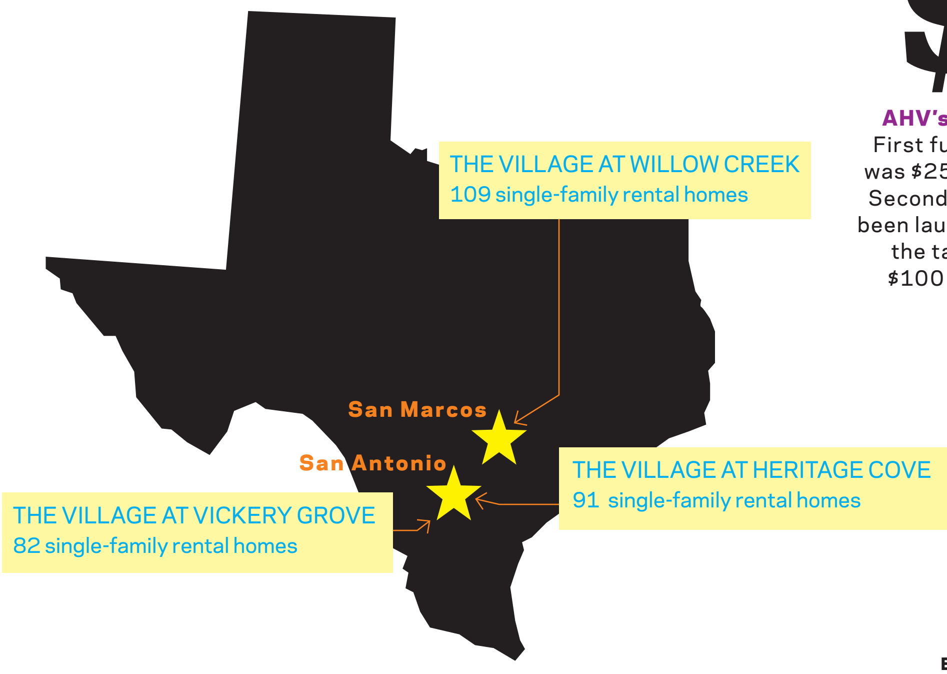
Mark Wolf
Co-Founder and CEO, AHV Communities

"I could never get my hands around the operational side of things—this gigantic beast of disconnected, geographically dispersed properties," Wolf says. "The income was attractive. We were talking to folks on the single-family side and we thought if we could solve for the geographic challenges on the expense side, it would be a great product."

One way to overcome the capital expenditure issues and the challenges with corralling a geographically dispersed portfolio is to build new. "Even though the pricing is higher, the maintenance is much lower and the cap ex through the first 10 years of ownership is much lower," says Jade Rahmani, Wall Street analyst at Keefe, Bruyette & Woods, an investment banking firm headquartered in New York City.

Building new, where homes would be in one community, also could eliminate logging miles back and forth to conduct repairs. "Where we differ from the sin-

PROJECTS UNDER CONSTRUCTION



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AHV's Funds:
First fund value was $250 million. Second fund has been launched and the target is $100 million.

gle-family rental home platform is we are a contiguous, cohesive community," Wolf says. "We build brand-new from the ground up. We're amenitized like an apartment, operated like an apartment, and managed and maintained like an apartment."

The renters are expected to pay for base utilities and take care of the inside of the house. "We fix anything that goes wrong like lights and toilets," Wolf says.

AHV plans to target a broad spectrum of renters, from young couples to baby boomers. "We want to provide workforce housing for nurses, policemen, and firemen," Wolf says.

"WHERE WE DIFFER FROM THE SINGLE-FAMILY RENTAL HOME PLATFORM IS WE ARE A CONTIGUOUS, COHESIVE COMMUNITY. WE BUILD BRAND-NEW FROM THE GROUND UP. WE'RE AMENITIZED LIKE AN APARTMENT, OPERATED LIKE AN APARTMENT, AND MANAGED AND MAINTAINED LIKE AN APARTMENT."

That's a good place to be, according to Robert Sassoon, director of special situations research at New York-based financial services firm R.F. Lafferty & Co.

"A large, important portion of the first-time home buying demographic is a bit incapacitated because of student debt," he says. "You're really pushing a significant portion out of the market."

But even if those young families can't purchase a home, they're still forming households.

"Household formation is increasing all the time as young families look to rent more homes," Sassoon says.

AHV's operations aren't the only thing designed to mirror the apartment industry—the financial calculations are as well.

"We're a cash-flow and cap-rate player like apartment companies are," Wolf says. "We're building to a high-six to high-seven return on costs, depending on the location. In the multifamily business, that's a high return on cost."

THE LAND CHALLENGE

In the condo run-up of the mid-2000s, apartment owners and developers started losing deals for existing assets and land that they were accustomed to winning. As they continued to buy on a cap-rate basis, they found that condo developers and converters, bidders who could eschew the traditional cap rate and sell quickly, were winning deals because they could pay more.

Though for-sale bidders may be able to have some advantages in securing deals, Wolf says that when chasing raw dirt and finished lots he can offer something many of those buyers can't: certainty. According to him, AHV has been able to beat out both national and regional builders for dirt.

"We're buying land in bulk, where all of the regional players will buy in takedown," Wolf says. "We're a more favorable execution for landowners and lot developers. We buy all of our lots upfront. There's no takedown, multiyear execution, or risk to the landowner at that point."

Wolf says he's looking for land in high-growth transit corridors with good school districts. So far, he's started in Central Texas, near Austin and San Antonio. Wolf looks at the costs of rent in the apartment market and of lot development. If that math works out and he can secure the land, he builds.

"It's not uncommon, where we were playing, to see $2.20 and $2.40 [per-square-foot] rents even out in the suburbs," Wolf says.

Wolf puts construction loans on the deal through HUD. Once he finishes his project, he plans to put permanent financing on it. Right now, he has quotes from Fannie Mae and CMBS lenders to provide 10-year financing. His equity comes from high–net worth investors as he gains more acceptance in institutional circles.

"People are interested in what we're doing," Wolf says. "Institutional capital is slower to move. It's a herd mentality. No one wants to pay the stupid tax, as they say."

One selling point with institutions is flexibility. Wolf thinks he has more options upon exit than traditional apartment owners since he could sell a home to another rental operator or sell the homes to buyers.

"We will have homes in the suburban, urban adjacent, exurban markets—10 to 15 minutes from downtown," Wolf says. "We have a house. Should we decide to change strategy, we have the opportunity to sell a true home."

NEXT EVOLUTION

AHV's first project, The Village at Vickery Grove in San Antonio, Texas, an 82-unit luxury single-family home rental community, is pre-leasing and "way above expectations," Wolf says.

In the pipeline, he has The Village at Heritage Cove in San Antonio and The Village at Willow Creek in San Marcos, Texas. While Wolf's single-family rental engine has only started running, he already has designs on what's next—an age-restricted, active adult product for people 55 and up.

"I think that will be a grand slam," he says. "Those folks are downsizing. They want a lock-and-leave lifestyle, and they don't want to be tied to a mortgage and maintenance."

But first he needs to prove that building new single-family homes for rental can work. "We're just on the precipice of seeing validation in our platform," Wolf says. "We're a hybrid. We're not really an apartment and not really a single-family strategy. We're the best of both worlds." **B**

The Village at Vickery Grove is a private, gated neighborhood featuring homes ranging from 1,542 to 1,988 square feet.

Making Waves

BIG GOALS, BIG EXPECTATIONS

Sumitomo Forestry America, a Japanese company with U.S. operations, completes latest acquisition into Mid-Atlantic market

BY BRIAN CROCE

Sumitomo Forestry America isn't shy about its home building goals in the United States: to be one of the biggest builders and deliver 5,000 homes a year.

The company is a subsidiary of Sumitomo Forestry Co., which got its start in forestry in the late 17th century when the Sumitomo family began harvesting timber to run a copper mine; nearly 300 years later, its portfolio expanded to include home building in 1975. It's Japan's fourth-largest builder domestically.

Atsushi Iwasaki
President,
Sumitomo
Forestry America

Sumitomo made its first appearance in the U.S. in 2002 when it entered the Seattle market, and it now carries out its home building business through four groups: Washington state-based Henley USA Group (a consolidated subsidiary), which controls MainVue Homes and currently builds in Washington and the Dallas-Ft. Worth market; Texas-based Bloomfield Homes Group (an equity-method affiliated company), which builds in Dallas-Ft. Worth; Texas-based Gehan Homes Group (a consolidated subsidiary), which builds in Dallas, Houston, San Antonio, Austin, and Phoenix; and, most recently, Frederick, Md.-based Dan Ryan Builders.

"After making a couple acquisitions in Texas, we identified several areas and regions to which we wanted to