

# Real Estate Finance & Investment

The weekly issue from **Real Estate Finance Intelligence**

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## Financing

### Is Silver Bay's Loss An Industry Red Flag?

**Silver Bay Realty Trust**, the first single-family rental housing REIT, has reported a \$6.4 million loss in Q1. On its earnings call, the firm put the loss down to being in the early days of expansion. But to market players, the loss could be symptomatic of the sector being sustainable only as an opportunistic model. A spokeswoman for Silver Bay declined to comment.

Silver Bay owns a portfolio of roughly 4,600 single-family properties, with 2,413 leased as of March 31. This resulted in an average occupancy rate of 53%. "On the face of it, [Silver Bay's] loss is more likely due to having a large number of vacant homes yet all the overhead of management," noted **James Breitenstein**, CEO of **Landsmith**, a San Francisco-based single-family rental specialist. "They have a vacancy rate of more than 50%. You need to be at least at 80% [occupied] and more likely at 95% occupancy to run efficiently," he added.

The problem is simple: rents are rising, but not as fast as home prices. "We are in the midst of going from a housing recovery to a housing boom," noted **Steve Duffy**, managing director of real

estate investment banking at **Moss Adams Capital LLC**. "And so what's great news for the individual is very bad for this business—it means that the acquisition basis of their growth is going to be increasingly expensive. It doesn't take a rocket scientist to know that if I have to compete with a robust increase in the prices of assets then property yields will be low," he noted.

Investors started looking last year to take advantage of a housing market that was bottoming out, coupled with increasing rental rates. Large institutional investors like **Blackstone** and **Colony Capital** soon started pouring money into buying single-family homes, fixing them up and renting them.

While the REO to rental strategy works well as an opportunistic model—investors have been able to buy at a low basis and generate double digit operating yields—the prices of assets have since increased dramatically. Usually, that points to a profitable exit. "But what is unproven [in this sector] is [holding rather than] selling. What is unproven is whether these companies can become perpetual owners; because that's what REITs are," added Duffy.

### RCA Plans Research Expansion

**Real Capital Analytics** is planning to expand its research and analytical tools with the hire of **Charles DiRocco**, who joined the New York-based data company from **PricewaterhouseCoopers** earlier this month. DiRocco's initial focus will be to expand the company's US Capital regular Trends reports.

Over the longer-term, however, RCA wants to augment its risk management analysis and add new metrics to analyze debt and equity portfolios. It also wants to overlap broader economic data with its market-specific and property-specific offerings, said **Bob**

**White**, founder and president. "We haven't correlated numbers such as employment data against our property data and we are hoping to provide more of an explanation of why things are happening and help clients to predict what will happen next," he added.

The move comes as more investors look beyond the core, U.S. markets. "We have been tracking the movement of capital into the secondary and tertiary markets over the past two quarters and are surprised that we haven't seen pricing trends improve along with volume trends," White noted.

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