Wall Street as Landlord: Blackstone Going Public with a $10 Billion Bet on Foreclosed Homes

Invitation Homes IPO will test investors' interest in the idea that the rental-home business can be institutionalized as apartments were before

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Dec. 6, 2016 5:30 a.m. ET

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Jonathan Gray of Blackstone Group LP went on the biggest homebuying spree in history after the U.S. foreclosure crisis, purchasing repossessed properties from the courthouse steps and through online auctions.

Four years, $10 billion and roughly 50,000 homes later, he will find out if his gambit will pay off. Invitation Homes LP, the Dallas-based company Blackstone formed to maintain and rent those homes, has filed confidentially for an initial public offering that could come as soon as January.

Though Blackstone is unlikely to sell much or even any of its stake in an IPO, the stock market debut will test investors' interest in the idea that the rental-home business can be institutionalized as apartments, shopping centers and office towers were before.

Blackstone and others investors believed that the housing collapse presented a rare opportunity to acquire homes for less than it cost to build them. Millions of foreclosures created a market large enough to justify investing in large systems to manage and maintain sprawling portfolios of rental homes.

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Now, these new institutional landlords say the move toward rentals further supports their business model. They point to tight lending standards and a generation of renters who are outgrowing apartments but are too burdened by student debt to buy homes.

Historically, mom-and-pop investors and regional players have owned nearly all the single-family homes for rent. Blackstone and other investors that emerged from the foreclosure crisis face unique challenges in joining them, beyond the chore of maintaining thousands of far-flung homes.

To generate the revenue growth that shareholders will demand, they must pace rent hikes to avoid spooking tenants into becoming home buyers themselves. And now that foreclosure rates have returned to normal levels and prices have rebounded, they could find it difficult to add new houses at attractive prices.

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They also must convince investors that huge home-rental companies are viable long-term businesses, not just massive portfolios of properties that need to be sold off.

But if Blackstone and its rivals in the rental-home business succeed, they will have created a huge new field in which Wall Street can invest.

At about $35 trillion dollars, U.S. homes are one of the world's largest asset classes—collectively worth more than the $20 trillion U.S. stock market. Since the housing meltdown, big investors have spent at least $32 billion buying and fixing up homes, and they own between 1% and 2% of all U.S. rental homes, analysts estimate.

Invitation Homes won't be the first Wall Street landlord to go public.

American Homes 4 Rent, which was launched in 2012 by self-storage magnate B. Wayne Hughes with cash from Alaska's state oil fund, made its stock market debut in 2013. It owns about 48,000 rental houses in 22 states.

Barry Sternlicht's Starwood Waypoint Residential Trust began trading in early 2014. After merging earlier this year with the home portfolio of fellow real estate mogul Thomas J. Barrack, it changed its name to Colony Starwood Homes and became the country's third-largest landlord.

After a slow start, American Homes and Colony shares took off this year, rising 27% and 33%, respectively, far exceeding the S&P 500's 7.9% gain.

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"We're no longer trying to convince the investment world this is a legitimate business," Fred Tuomi, Colony Starwood's chief executive, said in an interview. "We're not in this to simply fix and flip. We're in this for the long-term, steady and growing income stream."

Though the chance has passed to acquire thousands of houses at steep discounts, Colony and its competitors are still buying individual homes here and there as well as groups of homes bundled by other investors during the crisis, Mr. Tuomi said. Colony, he said, could manage about 100,000 homes without having to invest much more in the systems it built to manage them.

Economic factors have helped the stocks in the sector. Home prices have risen above their 2006 peaks in much of the country, boosting the value of these firms' holdings. That and rising interest rates have pushed homeownership out of reach for many. Lately, the homeownership rate has hovered around its lowest level in at least 50 years, according to U.S. Census data.

Meanwhile, rental vacancies, including apartments, are at their lowest level in at least a decade at 6.8% in the third quarter. Rents are up, particularly in single-family homes, where rents are growing faster than at apartments, according to Green Street Advisors LLC.

Some of the 14 metropolitan areas where Blackstone's Invitation Homes operates have had among the greatest home price appreciation in recent years. In Phoenix, where Blackstone bought its first house in 2012, prices have risen 57.5% since its homebuying binge began, according to Weiss Analytics. In Las Vegas, prices are up 60.3% since 2012.

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Blackstone has said it focused on properties in top school districts that were suitable for families, a strategy shared by rivals who have told investors that tenants in such areas more readily accept rent hikes to avoid moving. Invitation Homes spent more money buying and fixing up its homes—about $172,000, on average—than any of its competitors, Amherst Capital Management estimated in a recent study. Blackstone executives have said they spent about $25,000 repairing and updating each home.

The housing bet was one Mr. Gray, who started Blackstone's real-estate business shortly after joining the firm in 1992, didn't have to make to ensure his status on Wall Street. But with a flood of cash from investors who flocked to Blackstone's funds after the financial crisis, the opportunity proved too tempting to pass.

In interviews with The Wall Street Journal last year, Mr. Gray and Blackstone Chief Executive Stephen Schwarzman said tighter lending standards, buyers with wrecked credit and banks loaded with repossessed homes presented an unprecedented investment opportunity.

Blackstone, whose executives declined to comment for this article, went on to spend as much as $150 million a week on houses, aiming to acquire enough in each market to make maintenance efficient enough to profit.

—Laura Kusisto contributed to this article.

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