LOS ANGELES BUSINESS JOURNAL
THE COMMUNITY OF BUSINESS™

May 7-13, 2022

Haven Leads in Build-to-Rent

REAL ESTATE: Portfolio grows to more than $1 billion

By HANNAH MADANS WELK
Staff Reporter

El Segundo-based Haven Realty Capital has been betting big on the build-to-rent market, now surpassing $1.1 billion in build-to-rent assets. Build-to-rent homes are homes built specifically to be rented out.

While the company has multifamily holdings as well, its focus in the last year and a half has been on growing its build-to-rent portfolio.


Reddy

Haven acquired its first fully stabilized community in Dec. 2019 and began acquiring phases of homes under construction in Oct. 2020 with the acquisition of six rental communities then under construction in Atlanta.

The company now has 34 communities in nine states and roughly 3,480 homes in various stages of development, construction and completion.

The company was founded in 2010, which managing principal Sudha Reddy described as "a totally different time in the world," adding that he initially came up with a business plan to buy foreclosed homes and rent them out, as well as manage them.

From 2010 to 2014 the company was "exclusively focused on that business model and was able to do it in a number of states around the county," Reddy said.

In 2015, the company added multifamily investments to its portfolio.

Reddy said he thought about combining aspects of both to create communities of home rentals in one location, which is the company's focus today.

"Single-family rental homes have been around for decades," Reddy said, adding that single-family rentals became more popular in 2010 due to the foreclosure crisis and then in 2020 the build-to-rent market took off.

"Many investors like myself saw how much demand there was to rent houses and saw that that demand was long term and wasn't just transient," he said. "Covid has really shed a flashlight on the industry. You've had a large push from the urban cores to the suburbs. You have individuals and families that want to not just buy but rent houses. It's about space and it's about settling down."

David Howard, executive director of National Rental Home Council, a nonprofit trade association for the single-family rental home industry, said Haven had scaled up quickly.

"Haven Realty Capital is a really interesting company," Howard said. "They've been able to grow quite quickly and undertake a number of projects fairly quickly in a number of markets. You typically don't see that in the build-to-rent sector.

Haven is doing a number of projects at once. They've grown quickly and they are developing quality communities and quality homes that fill the demand.

Bella View is a Haven Realty build-to-rent development in Atlanta that is completely leased.

Growing market

The number of build-to-rent homes increased 30% from 2019 to 2020, according to the New York Times, which analyzed data from the U.S. Census Bureau, the National Association of Home Builders, Bloomberg, a 2019 American Community Survey, Harvard University Joint Center for Housing Studies and Pew Research. The number of build-to-rent homes being built will likely double in the next 10 years, according to the paper.

Howard called the growing build-to-rent sector a "very innovative effort on the part of the single-family rental home industry to bring new housing supply into the market."

"The challenge that has been facing the housing market over the last couple of years is really one of supply. There's simply not enough supply to meet the demand," Howard said, adding that there has only been a small uptick over the years in rental homes developed and a growing number of people looking to rent them.

"The effort to build new homes and new home communities exclusively for rent really represents an innovative approach on the part of the industry to address the supply constraints proving challenging for the housing market and it's meeting a real need," Howard said. "The demand for single-family rental housing has surged in the last couple of years. Some of that was due to Covid but it was also the result of larger demographic trends … The rate of family formation is growing; the millennial generation is at a place where they are entering prime home-buying years, and that has impacted the supply of homes."

Haven is looking to take advantage of these trends. In August, the company announced it completed the first phase of its $23 million acquisition of the 54-home Windermere Trails community in Knoxville, Tennessee.

There's simply
not enough supply
to meet the demand.
– DAVID HOWARD
National Rental Home Council

In July, the company announced the acquisition of three dedicated rental communities under construction in Atlanta and Charlotte, N.C., in two separate deals worth more than $80 million combined.

Also last year, the company closed on the first phase of the $30.6 million acquisition of Harrison Landing Townes in South Carolina, which has 166 units. Haven partnered with Plymouth, Penn.-based real estate asset manager CenterSquare Investment Management on the acquisition.

Chris Picyk, a vice president at the CenterSquare, said the company recently grew interested in private market investments in single-family home rentals "rather than trying to aggregate a portfolio of scattered-site homes."

“We really like the build-to-rent model where we can own at scale in one location, which allows us to manage the property and the homes more efficiently and gives us access to brand-new, higher-quality homes that in the long run should have fewer maintenance problems,” Picyk said.

Windermere Trails is a build-to-rent development in Knoxville. Tenn.

The company has also partnered with Haven on other communities.

Reddy agreed that having economies of scale was a major plus of build-to-rent communities.

“Single-family homes in a more scattered format where you buy a bunch of houses all over a metro area, the perception of that is that it’s more challenging and it requires more scale to manage more efficiently, and that’s true,” Reddy said, adding that while Haven has taken that approach in the past, the build-to-rent market is much more efficient now.

Haven buys properties from developers who would otherwise sell the entire community. The builder usually delivers in chunks of roughly 10 a month, which Haven then buys and leases.

Beyond LA

In addition to buying, Haven is the developer of six communities. Despite being based in El Segundo, Haven’s build-to-rent communities are out of state, though it does own some multifamily assets in L.A.

“We’d love to build these communities here,” Reddy said. “L.A. is more of an infill market, but we are looking to add. Unfortunately, because L.A. is so built out, L.A. is difficult to find land parcels.”

In deciding areas for build-to-rent communities, Reddy said the company looks for areas with strong population growth and job growth where the economics are favorable for the company.

High housing costs, he said, make some people need to rent instead of buy, which helps make build-to-rent successful. These communities allow renters to get more space without having to have large cash reserves for a hefty down payment.

Reddy said that the company would continue to add to its multifamily portfolio if things lined up but was “very focused” on the build-to-rent market.

“The future of the company is to continue to be a high-quality investor that is able to identify different trends in housing and provide investor opportunities to our investors,” Reddy said, adding that he felt the build-to-rent market was “in the early innings.”

Haven’s investors are a combination of accredited investors, family offices, private equity firms and institutional LPs. Haven also invests in joint ventures with institutional partners through discretionary funds.

National Rental Home Council’s Howard said the build-to-rent market will continue to grow as other companies follow Haven’s lead and invest in the sector.

“More innovation is coming, and there is more capital coming into the industry to support more build-to-rent developments,” he said. “It’s only been in the past 10 to 15 years that people are recognizing single-family homes as an asset class worth considering … The demand for single-family rentals overall is continuing to grow.”