

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 21, 2015

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REAL ESTATE

Big Landlords to Merge, Betting on Rising Rents

Barry Sternlicht's Starwood Waypoint to combine with Colony American Homes

By RYAN DEZEMBER

Two big owners of single-family rental homes said Monday they have agreed to merge, a bet that rents will keep rising and homes will remain difficult for many Americans to buy.

Starwood Waypoint Residential Trust, a publicly traded real-estate investment trust run by Barry Sternlicht, the long-time real-estate investor who is Starwood Capital Group's chief executive, will combine with closely held Colony American Homes Inc. in a deal that values Colony at about \$1.5 billion based on Starwood Waypoint's closing share price Friday. The Wall Street Journal had reported the deal earlier Monday, citing people familiar with the talks.

Under the terms of the agreement, Colony shareholders will receive about 65 million shares of Starwood Waypoint. The deal has been approved by the boards of both companies and is expected to close in the first quarter of next year. Starwood Waypoint shares were inactive premarket.

"We believe this merger demonstrates the power of scale and consolidation and really crystallizes the long-term durability of the single-family rental industry," said Thomas J. Barrack Jr., the executive chairman of Colony American Homes' parent, Colony Capital. He will serve as nonexecutive co-chairman of the combined company alongside Mr. Sternlicht.

The two companies own a combined total of more than 30,000 homes valued at nearly \$8 billion. Messrs. Sternlicht and Barrack were part of the rush by big investors to buy foreclosed homes in bulk, often sight unseen and at steep discounts, after the U.S. housing market collapsed.

Such investors concentrated their buying in some of the hardest-hit areas, including southern Florida, Phoenix, Atlanta and California, hoping to gain enough size in each market to make management of the properties more efficient.

Other major buyers of single-family

rental homes include Blackstone Group LP, which has spent nearly \$10 billion to acquire and spruce up about 50,000 foreclosed homes now rented through its Invitation Homes LP.

The proposed merger of Starwood Waypoint and Colony is a bet that the percentage of Americans who own homes will remain unusually low. While the foreclosure crisis has receded, toughened lending standards have pushed millions of Americans out of the homebuying market.

Higher interest rates would increase borrowing costs and make it harder for some renters to buy homes.

The Federal Reserve decided last week not to raise short-term interest rates from near zero, where they have held since 2008, but the central bank is expected to revisit the matter later this year.

The U.S. homeownership rate is at its lowest level in nearly 50 years, falling to 63.5% in the second quarter, according to the Commerce Department.

In contrast, single-family rentals now add up to 13% of overall housing stock, up from 9% in 2005, according to a report by Moody's Analytics.

Rents have been climbing steadily, though some analysts and investors question how long it can last, especially in areas with weak wage growth. Many of the rental homes scooped up by big investors are in those parts of the U.S.

The single-family rental home business was long dominated by mom-and-pop operators. Big investors have used their access to capital and number-crunching skill to barrel into the market. Starwood Waypoint touts algorithms it has developed to guide decisions that include which neighborhoods to target.

The response from stock-market investors has been mostly tepid so far.

As of Friday, Starwood Waypoint shares were down about 20% since its spinoff from Starwood Property Trust last year. Shares of American Homes 4 Rent, which owned 37,491 homes in 22 states as of June 30,

have risen 2.7% since their stock-market debut in August 2013.

Blackstone executives have said they plan to eventually list shares of Invitation Homes through an initial public offering.

Bond buyers have been more enthusiastic, snapping up the debt issued by some companies in the sector.

In the two years since Blackstone's Invitation Homes sold the first bond backed by rents from a pool of houses, \$13 billion of such bonds have been sold, according to Kroll Bond Rating Agency Inc.

Single-family rental companies must convince investors that the single-family rental model will remain viable if homeownership levels rebound. Some outsiders also question how much more firms like Blackstone, Colony and Starwood Waypoint can grow now that so many of the most deeply discounted foreclosed homes have been purchased.

Single-family rental companies also face questions about their ability to maintain tens of thousands of scattered properties. The chores include cutting lawns, fixing sinks, insurance and keeping track of rental rates and payments.

Big investors need to amass enough market share to keep their operating costs in check.

In June, Starwood Waypoint said the company and other institutional investors owned roughly 200,000 of the 15.3 million U.S. rental homes, suggesting significant room for expansion if other conditions are ripe.

The two companies believe that a merger would result in as much as \$50 million in cost reductions.

If the deal goes through, Colony investors would own 59% of the combined company's shares, while Starwood Waypoint shareholders would own 41%. Starwood Waypoint would issue new shares as part of the merger.

—Chelsey Dulaney contributed to this article