



Friday, August 11, 2017 12:13 PM ET **Exclusive**

Invitation-Starwood deal creates a single-family rental giant

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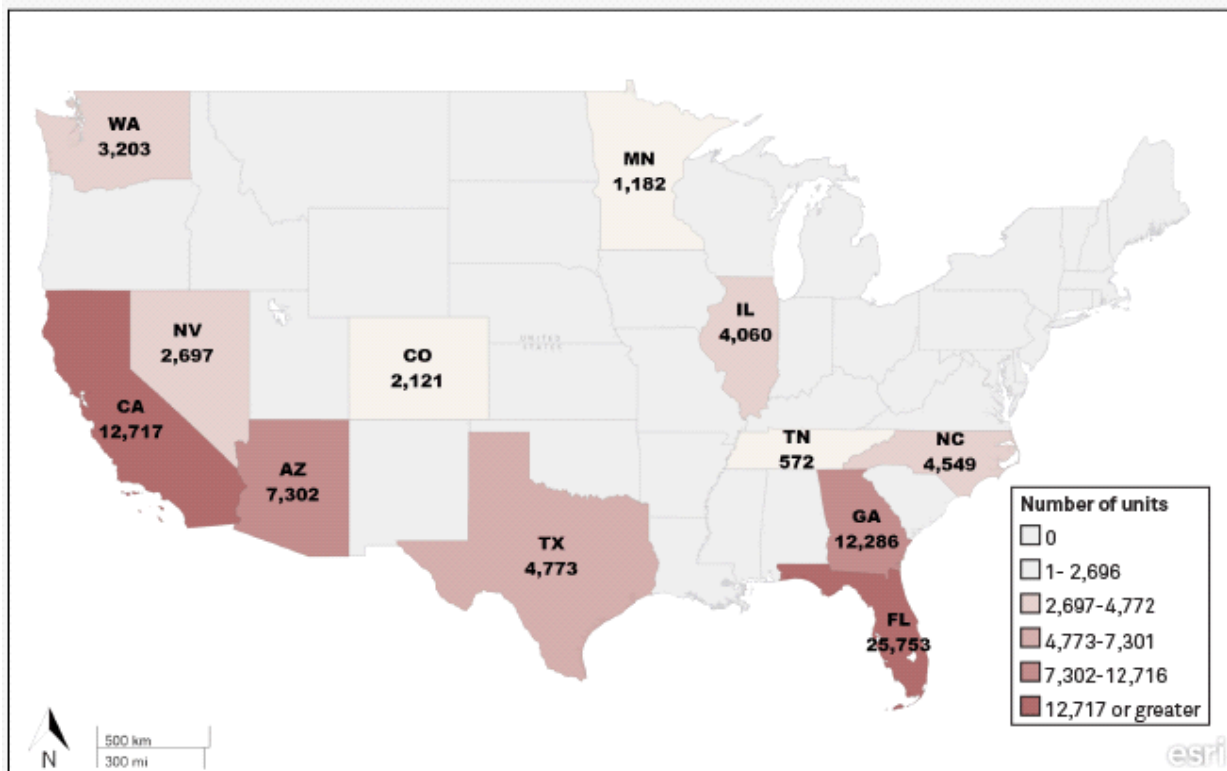
The planned [merger](#) between [Invitation Homes Inc.](#) and [Starwood Waypoint Homes](#), which would create the largest single-family rental landlord in the U.S., shows the continued viability of the institutional-scale house-rental business, observers said.

Both companies' portfolios, which together include roughly 82,000 houses, originated in a buying spree after the last decade's housing-market crash. Public real estate investment trusts in the sector initially [struggled](#) to gain support from investors who doubted the landlords could manage vast collections geographically distributed properties, but the largest companies in the space have [argued](#) throughout that owning larger portfolios would increase efficiencies and drive down costs.

Executives at [American Homes 4 Rent](#), so far the largest public company in the sector, were among the most prominent [advocates](#) of scale; they are now being leapfrogged by a combined company that, based on current share price numbers, would lead the industry with a roughly \$11 billion market capitalization.

The consolidation trend, which has already subsumed multiple public REITs and private house-rental platforms, could continue: Prominent rental platforms still in the market include Progress Residential, a private owner of roughly 20,000 properties, and Tricon American Homes, which [bought](#) Silver Bay Realty Trust, formerly a public REIT, and now owns more than 16,000 properties. American Homes said Aug. 10 that it will [sell](#) up to \$500 million in shares in at-the-market transactions, with some of the proceeds used to buy houses.

Invitation Homes and Starwood Waypoint Homes pro forma exposure



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Data compiled Aug. 10, 2017.
 Data as of June 30, 2017.
 Map excludes 81 units in "other markets" and 808 units which are held for sale.
 Data includes properties reported in public filings.
 Sources: S&P Global Market Intelligence; Invitation Homes Aug. 10, 2017, Form 8-K; Starwood Waypoint Homes second-quarter 2017 10-Q.

The leading REITs have gained investor [favor](#) in part because they have visibility in their core markets, large amounts of liquidity and technology platforms that give them an advantage over smaller competitors, Mizuho Securities USA Inc. analyst Haendel St. Juste said.

In an email to S&P Global Market Intelligence, Starwood Waypoint CEO Fred Tuomi, who will retain that position at the new company, said the merger was the

next step in the maturation and institutional development of the single-family rental business.

"We have proven this is a sustainable business capable of producing strong operating results while providing exceptional customer service," he wrote. "Now that scale has been achieved and operating results have stabilized, growth through consolidation is a natural next step."

The merger was "the only real way to grow either company's scale in a meaningful way," David Corak, an analyst at FBR Capital Markets & Co., said in a note. If either company had pursued growth through acquisitions, spending a net \$500 million a year going forward, achieving similar scale would have taken Starwood Waypoint roughly 27 years and Invitation homes 16 years, he added.

The combined company will be the 19th-largest public REIT by enterprise value, and appears to be a likely candidate for inclusion in the S&P 500, in a potential landmark for the industry, Corak said.

Some observers noted that the stock-for-stock deal carries no premium for Starwood Waypoint shareholders, but Tuomi [argued](#) in a conference call that the combined platform's strength will perform better than either company could separately. The two portfolios overlap significantly, with roughly 83% of the combined company's properties in markets where both REITs own houses. Despite the lack of a premium, "nearly all investors we spoke with were supportive," St. Juste wrote.

One major investor in the combined company will be [Blackstone Group LP](#), which owns roughly 70% of Invitation Homes and will own roughly 41% of the combined REIT. An agreement preventing Blackstone from selling shares in the combined entity will expire 30 days after the merger closes, and analysts said the potential for the private equity giant to sell some or all of that stake will hold down the Invitation Homes share price.

Blackstone did not respond to a request for comment, and Tuomi said he was not concerned about Blackstone's making a quick exit, calling the firm a strong believer in the combined company's long-term prospects.

"Blackstone is a smart investor with a history of exiting investments rationally and methodically over time," Tuomi wrote, noting that the firm could have sold its Invitation Homes stake in the days leading up to the deal, but elected to hold its shares past the merger's closing.

Select single family rental REITs portfolio comparison

| State | Invitation Homes Inc. (INVH) | Starwood Waypoint Homes (SFR) | Invitation Homes and Starwood Waypoint Homes pro forma portfolio | American Homes 4 Rent | Reven Housing REIT Inc.* |
|--------------------------|------------------------------|-------------------------------|--|-----------------------|--------------------------|
| AL | | | | | 68 |
| AZ | 5,425 | 1,877 | 7,302 | 3,157 | |
| CA | 7,482 | 5,235 | 12,717 | 710 | |
| CO | | 2,121 | 2,121 | 688 | |
| FL | 16,156 | 9,597 | 25,753 | 5,488 | 255 |
| GA | 7,293 | 4,993 | 12,286 | 4,985 | 47 |
| ID | | | | 289 | |
| IL | 2,915 | 1,145 | 4,060 | 2,033^ | |
| IN | | | | 2,897 | |
| MN | 1,182 | | 1,182 | | |
| NC | 3,110 | 1,439 | 4,549 | 6,395 | |
| NM | | | | 214 | |
| NV | 959 | 1,738 | 2,697 | 1,023 | |
| OH | | | | 3,633 | |
| OK | | | | 412 | |
| OR | | | | 207 | |
| SC | | | | 1,801 | |
| TN | | 572 | 572 | 3,410 | 118 |
| TX | | 4,773 | 4,773 | 9,420 | 265 |
| UT | | | | 1,048 | |
| WA | 3,203 | | 3,203 | 478 | |
| WI | | | | 125 | |
| Other markets | | 81 | 81 | | |
| Properties held for sale | | 808 | 808 | | |
| Grand Total | 47,725 | 34,379 | 82,104 | 48,413 | 753 |

Data compiled Aug. 10, 2017.

Data as of June 30, 2017, or most recent available.

* Data represents Reven Housing REIT's portfolio as of March 31, 2017, and the company's 68-property portfolio acquired April 19, 2017, in Birmingham, Ala.

^ Represents homes in the Greater Chicago area and includes properties in both Illinois and Indiana.

Data includes properties reported in public filings.

Sources: S&P Global Market Intelligence; Invitation Homes Aug. 10 Form 8-K; Starwood Waypoint Homes second-quarter 2017 10-Q.