

Amherst

An emerging institutional asset class

How Amherst is leveraging technology and analytics to elevate U.S. single-family residential

Jonathan A. Schein, Institutional Real Estate, Inc.'s senior vice president and managing director of global business development, recently spoke with **Christopher Avallone**. Following is an excerpt of that conversation.

What are the popular markets for single-family rental, or SFR, in the United States? How do you determine them?

We consider the macro and demographic trends supporting the single-family rental asset class in the United States to be nationwide trends. New household formation rates, limited access to mortgage credit, and the desire for the space and amenities of a single-family home are trends that span every city, state and region of the U.S. When we assess potential new markets, we evaluate factors specific to each market's housing stock, such as expected cash-flow yield, projected home-price appreciation, and size, vintage and transaction velocity of properties. Our model also factors in demographic drivers that can give us an analysis of the population in each area. These demographic factors include data on migration flows, job creation and wage growth. We continue to see attractive investment opportunities in the southern and southeastern United States. Our recent expansion to new markets has been focused on the western states.

How do you discover new markets and opportunities in the world of single-family rental?

Technology is a driving force behind Amherst's ability to execute on our opportunity set and is an area in which we will continue to invest considerable resources. We are using our proprietary technology to "see around corners" ahead of market trends, predict consumer behavior and create investment strategies. Before we enter a new market or begin a new strategy, we execute a significant amount of research and scenario analysis using our technology.

**CONTRIBUTOR**

Christopher Avallone
Co-Head of Institutional Single-Family Residential
Amherst Residential

Christopher Avallone is co-head of Amherst's institutional single-family residential business. Avallone joined Amherst in 2018 and oversees capital raising, investment management, new venture formation and other strategic initiatives. Prior to Amherst, Avallone most recently worked at Goldman Sachs as vice president in the investment banking division covering real estate, lodging and gaming. He began his career at UBS.

When you are looking at new homes to acquire, how do you leverage technology in a way that sets you apart from every other buyer who can access all the information on homes for sale, readily available online?

For more than 25 years, Amherst has been utilizing technology to underwrite the U.S. housing market. Prior to the housing crisis, Amherst used its technology to underwrite mortgages, the likelihood of the homeowner making his or her monthly payment and the underlying value of the home. Fast forward to today, and we are analyzing the same homes but, instead of underwriting the ability to pay a mortgage payment, we are underwriting the ability to pay rent.

Amherst is one of the only real estate investment firms to have a complete in-house macro research department led by a team of data scientists and PhDs. This team plays a critical role in bringing predictive analytics and modeling to our platform. Our team is constantly analyzing a large amount of complex historical data sets and, ultimately, working toward forward-looking strategic decisions. We have data on nearly every piece of single-family residential real estate in the United States and the abil-

ity to interpret it in a very impactful way, which, when paired with our on-the-ground expertise in nearly 30 U.S. markets, is a powerful combination.

How so?

As an example, we have the ability to underwrite every single-family home in the United States as both an owner-occupied home and a stabilized rental home, analyze the characteristics of the census tract, underwrite projected net operating income, and conduct scenario analysis of likely impacts of various home-price appreciation and mortgage credit availability scenarios. All of these elements play a role in our ability to ensure that we can provide a comfortable, safe and secure home for our prospective residents; acquire the home at the right price; and achieve returns that we have promised for our capital partners. The best part is that all of this is available instantly on an asset-level basis for 18 million U.S. single-family homes right at our fingertips.

People have been renting houses for as long as there have been houses, but as an institutional market, SFR seems a fairly new asset class. One of the things that held it back was how labor intensive it was to manage. Has technology solved

that problem? What else has changed since the GFC to make this an attractive institutional asset class?

When I joined Amherst, I learned right away that the quality of Amherst's resident experience is the reason we have been so successful raising institutional capital and helping to institutionalize the asset class. Our No. 1 mission is to make sure our residents have a best-in-class experience. This mission informs everything from the highest level strategic decisions, such as which markets to enter, to the smallest asset-level decisions, such as paint color or hardware.

Our technology and economy of scale have made a tremendous difference. They have created a consistency in the resident experience that was not available before. Tenant experiences with local property owners can be inefficient, inconsistent and unreliable, and we strive to use our technology and access to capital to provide a superior home and superior customer service. That being said, we are only scratching the surface on utilizing technology to optimize our resident experience and our performance as a manager. This is still very much a "people" business, and our team is in the field every day interacting with our residents.

Amherst announced they were going to be buying 10,000 new homes this year. Home prices are rising. Is that affecting your trajectory at all?

So far, the answer is no. First, tightening home prices in certain markets have resulted in tactical shifts in how we are deploying our capital, but our national footprint and our vertically integrated platform have resulted in a very advantageous cost of capital that has continued to support growth. As single-family rental as an asset class becomes increasingly accepted by institutional investors, our cost of capital has come down faster than cap rates have tightened. Second, we have increased outreach in our communities to provide liquidity to owners of portfolios that are interested in selling. This grassroots effort is a good example of how we combine our underwriting technology with our team in the field. Local landlords know Amherst and understand that we can seamlessly transition their tenants onto our platform.

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On a more personal note, you recently just moved to Texas from New York, where you worked for Goldman. What about Amherst encouraged you to make the move to Austin to join the team?

I was an investment banker for the last 10 years, and mostly in the real estate division at Goldman Sachs, where I had the opportunity to cover companies

across many commercial real estate sectors. U.S. single-family housing is an incredibly unique opportunity because it is a core consumer staple, it is highly liquid, and institutions only own a tiny fraction of the market. I believe that more consumers will be long-term renters and that an institutional-quality product provides a superior experience, similar to multifamily. Amherst has a very unique value proposition within the space: with our leadership, our technology and our mortgage industry DNA, we have a fantastic running start.

A last word?

Amherst is building an ecosystem for U.S. single-family housing that will allow us to provide our value-added services to all owners and residents. Whether you are a buyer or a seller, an owner or a renter, an institution or an individual — we can help. We view our residents, our investors and our counterparties as long-term partners in an emerging industry, and we're eager to provide solutions across the spectrum. This is a thrilling time to be in U.S. single-family residential!

CORPORATE OVERVIEW

Amherst is a leader in developing innovative investment solutions in the real estate capital markets. Driven by data, analytics and technology, Amherst has a 20-year history of anticipating where the next risks and opportunities are likely to emerge and designing actionable strategies for investors to capitalize on opportunities across residential real estate, commercial real estate and public securities. Amherst has built vertically integrated real estate investment teams supported by Amherst's data and analytics platform, with more than 60 dedicated technology professionals, PhDs and data scientists focused on developing proprietary modeling and analytical tools. Amherst, along with its affiliates and subsidiaries, including Amherst Residential, has more than 850 employees, \$3.9 billion under management and approximately \$15 billion under advisement and oversight, as of March 2019.

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