

OPPORTUNITY IN SINGLE FAMILY HOMES

Silver Bay Realty Trust (NYSE: SBY)

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Mindset Capital
ValueX Presentation 6/23/16

What have I been up to since ValueX 2015

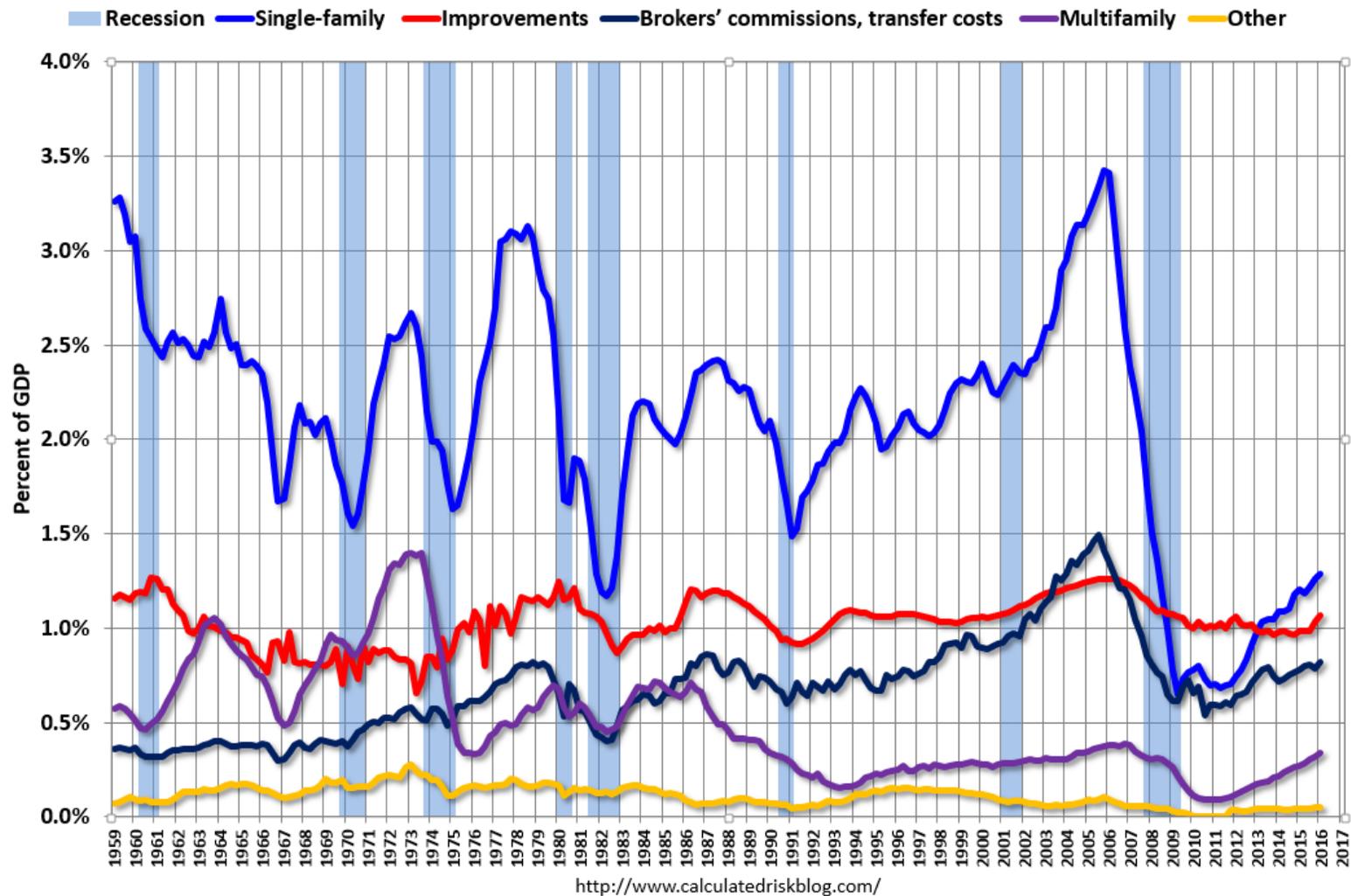


Shortage of Housing

- Shortage of homes, especially starter homes
- Shortage is acute in high growth areas
- Homebuilders can no longer produce a profitable home for below \$200k
- Not surprisingly, home prices are rising fastest at low end
- Despite owning 9,000 of these homes, SBY trades at a sizable discount
- Due to its low valuation, SBY is very attractive

Historically Low Residential Investment

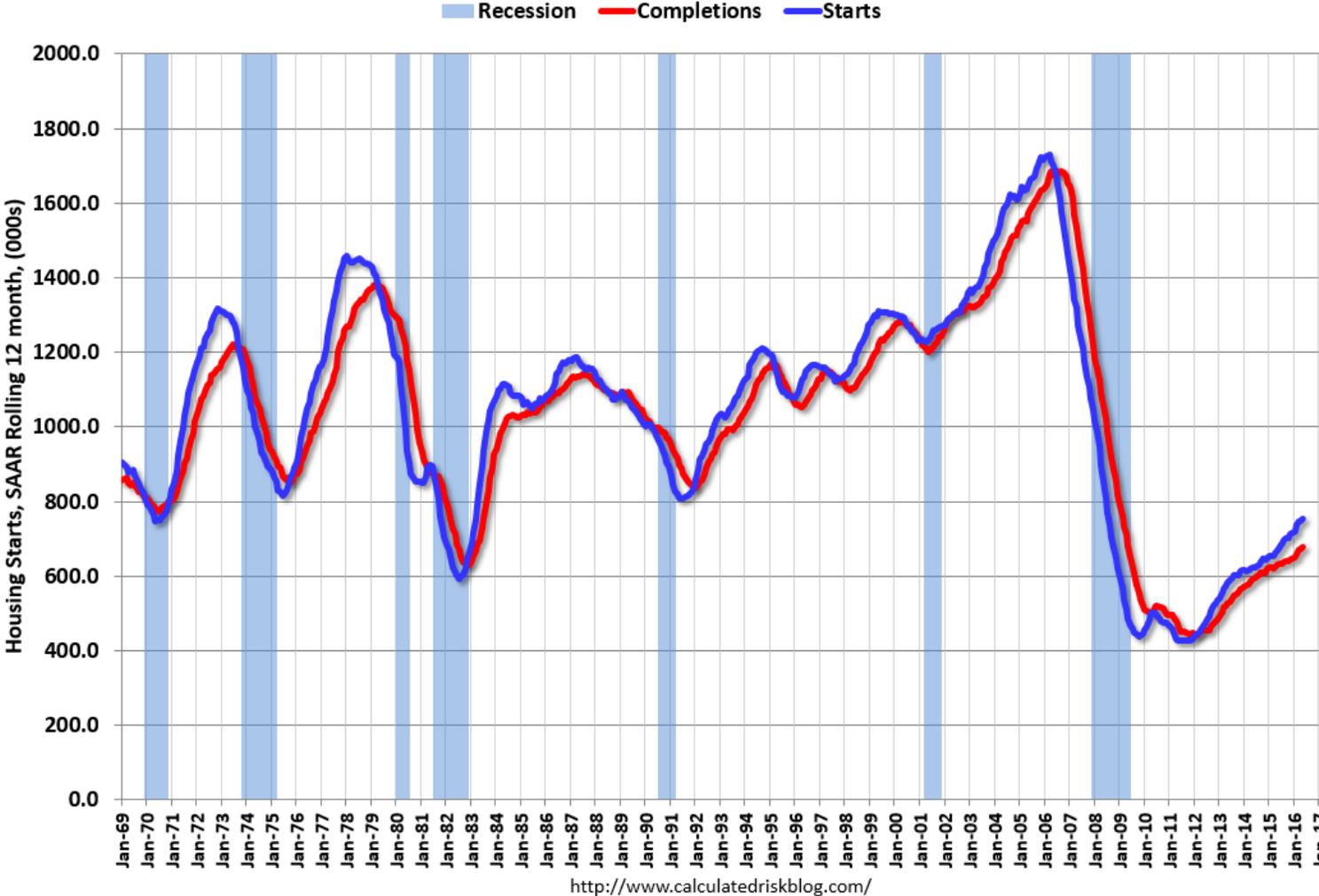
Components of Residential Investment as Percent of GDP



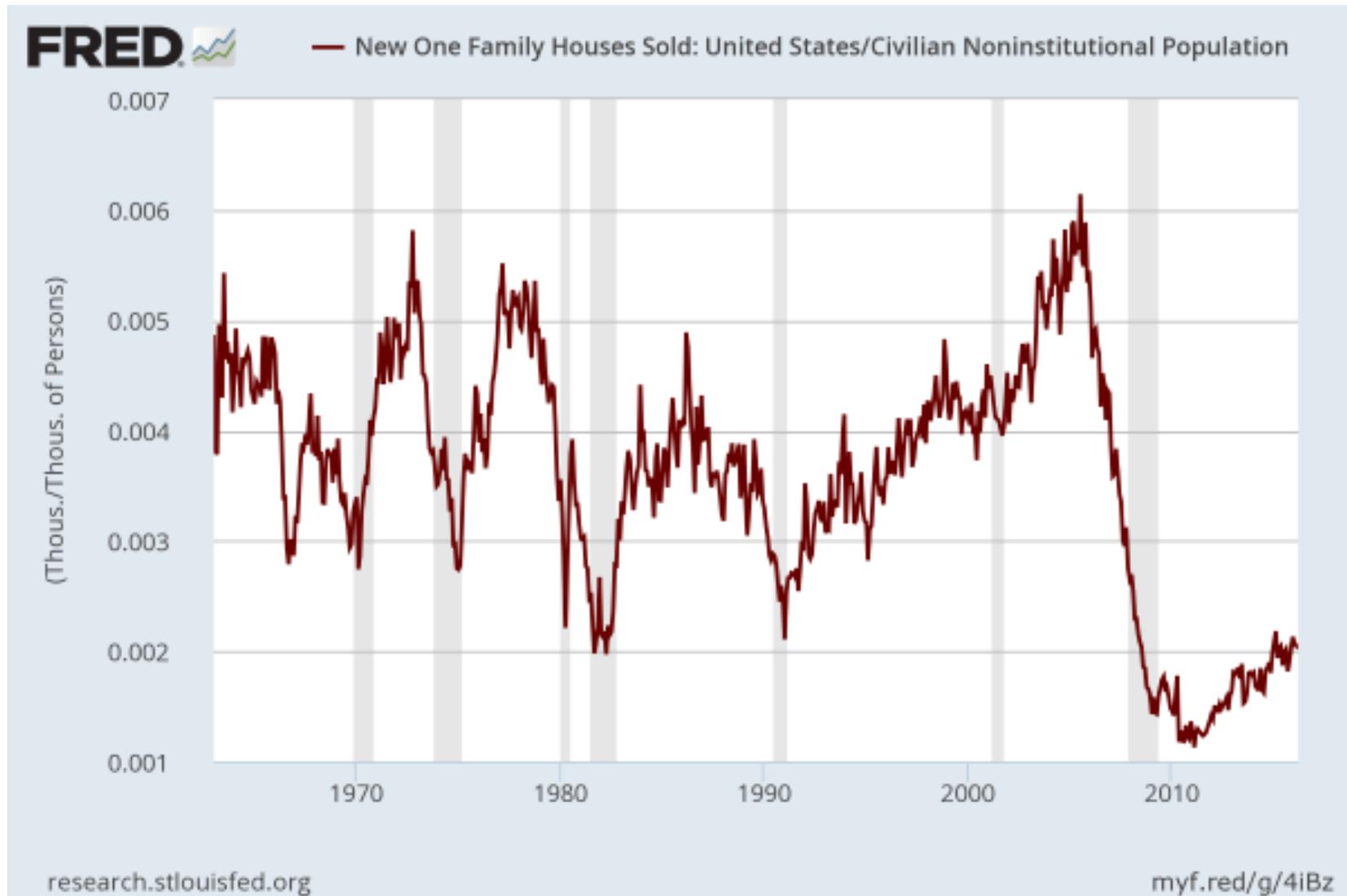
<http://www.calculatedriskblog.com/>

SFH Construction Slowly Recovering

Housing Starts and Completions, 1 Unit Structures, Rolling 12 months

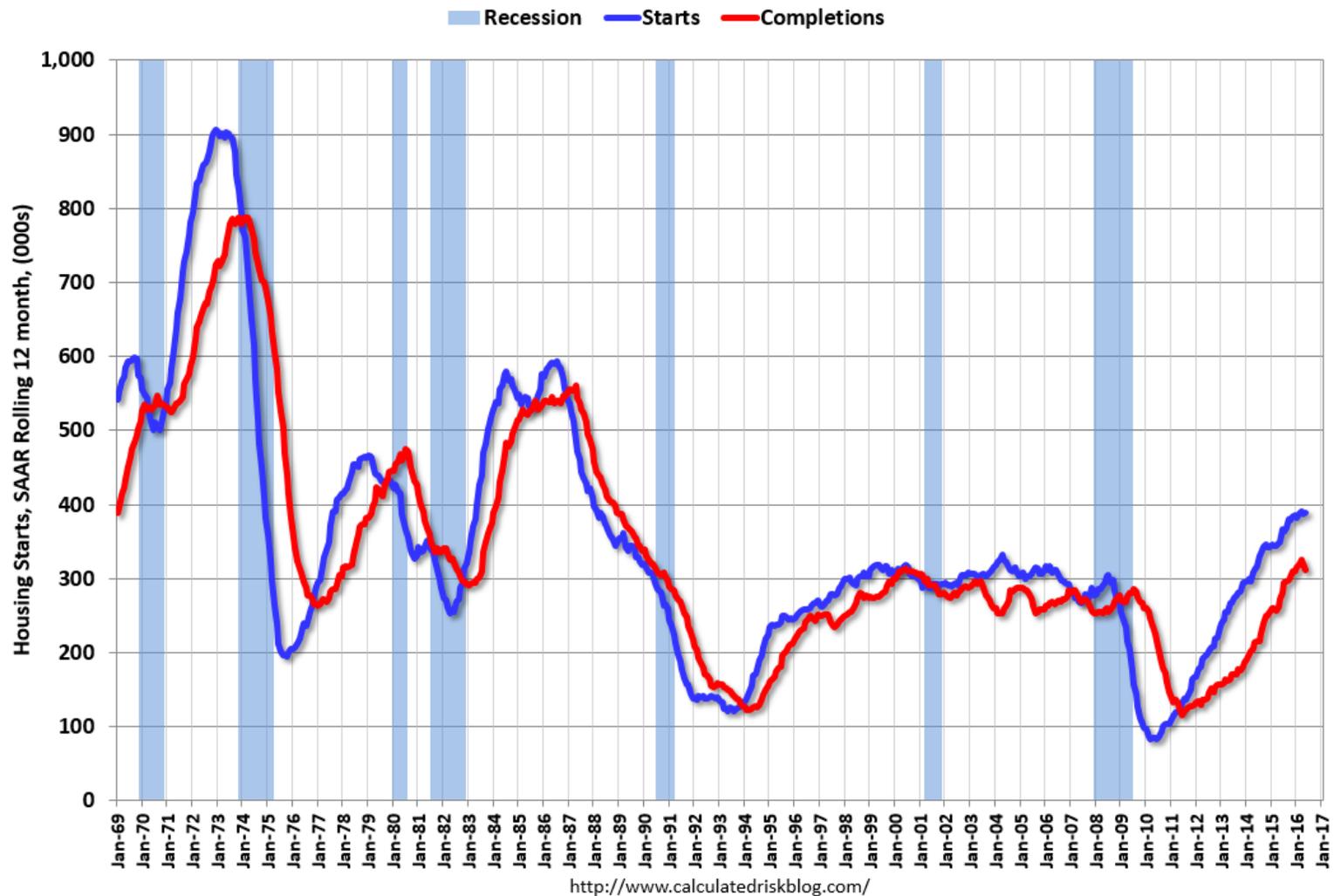


New Home Sales Still At Record Lows

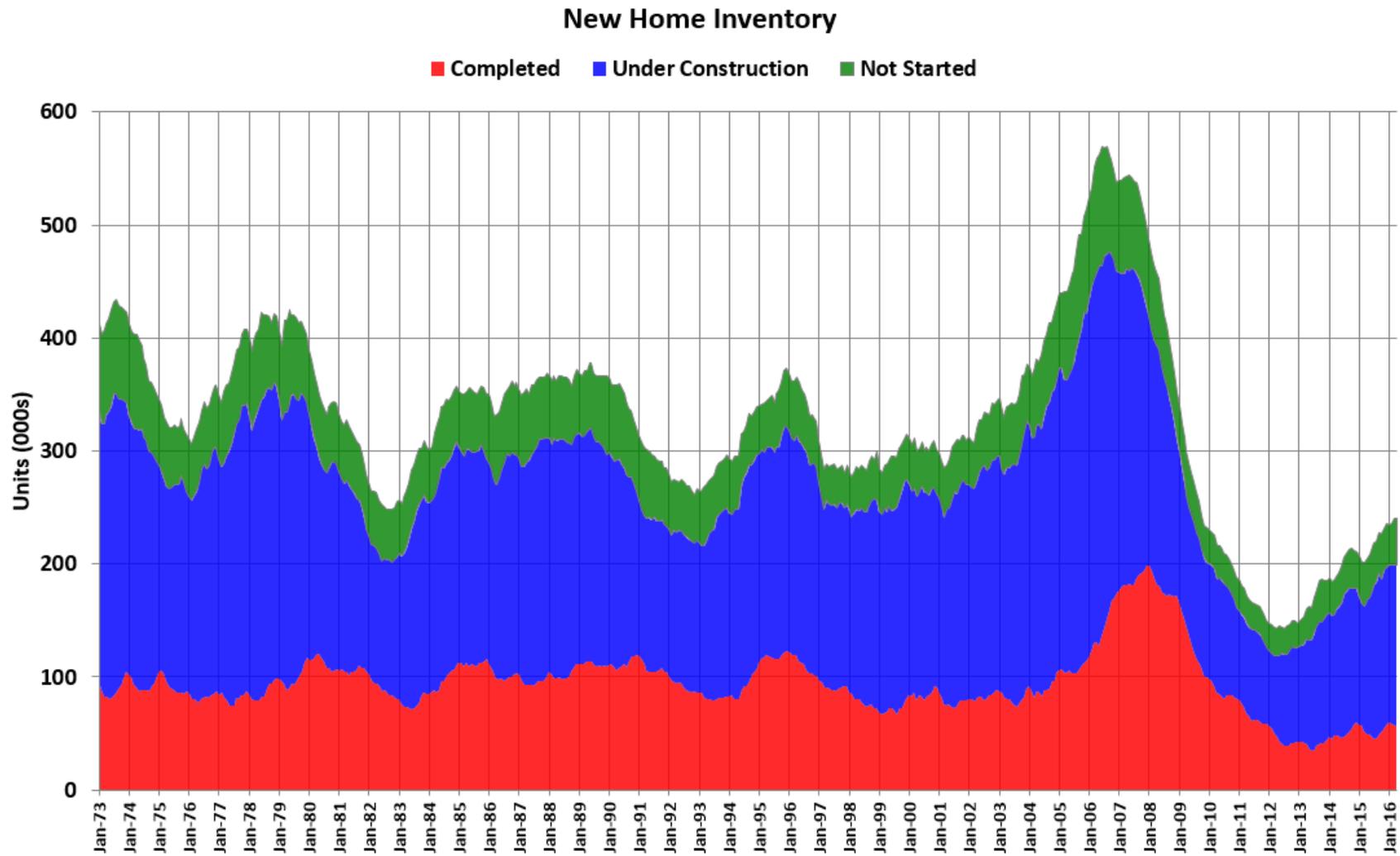


Multi-Family Back to Normal

Housing Starts and Completions, 5+ Unit Structures, Rolling 12 months



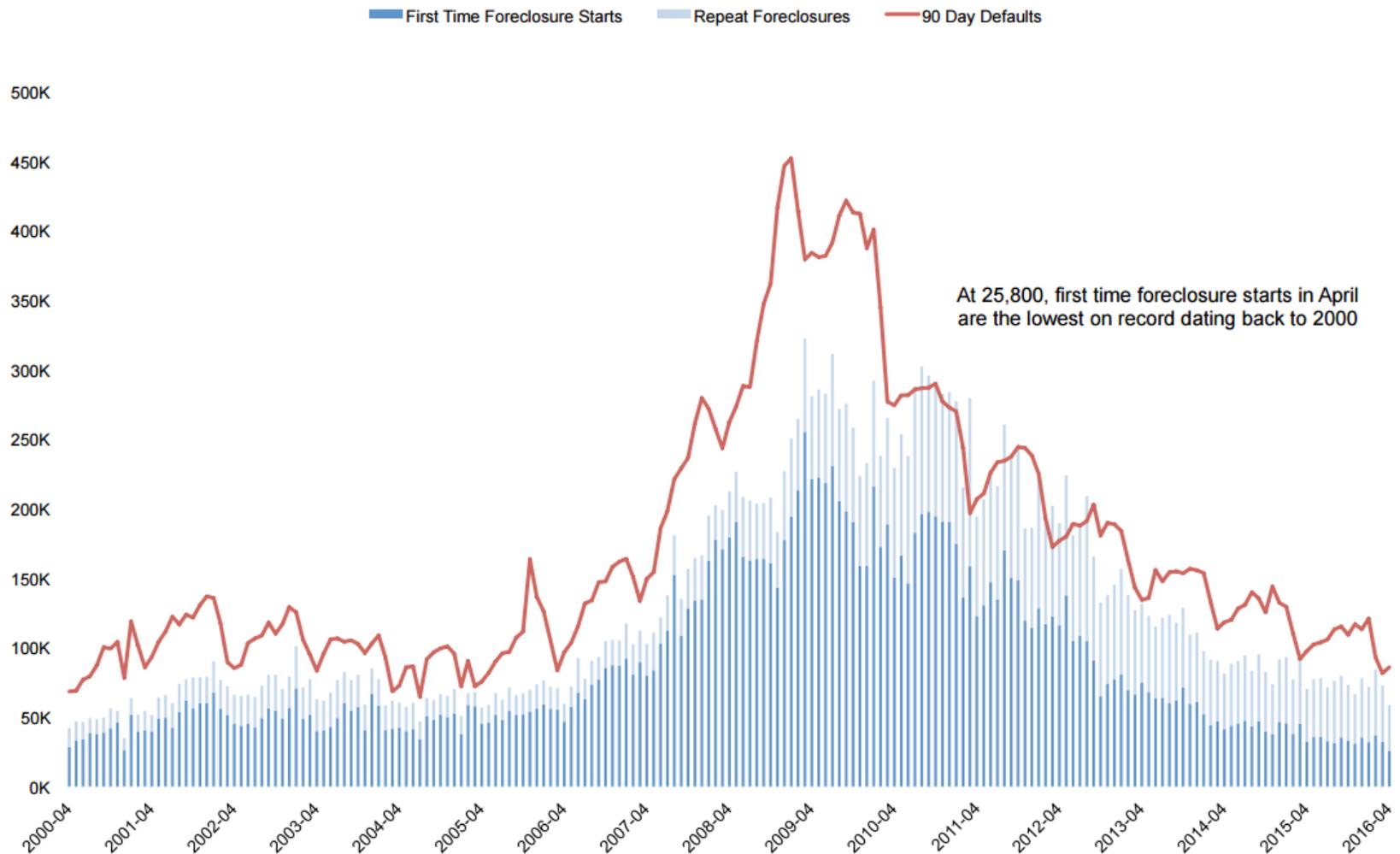
Low Inventory of Finished Homes



<http://www.calculatedriskblog.com/>

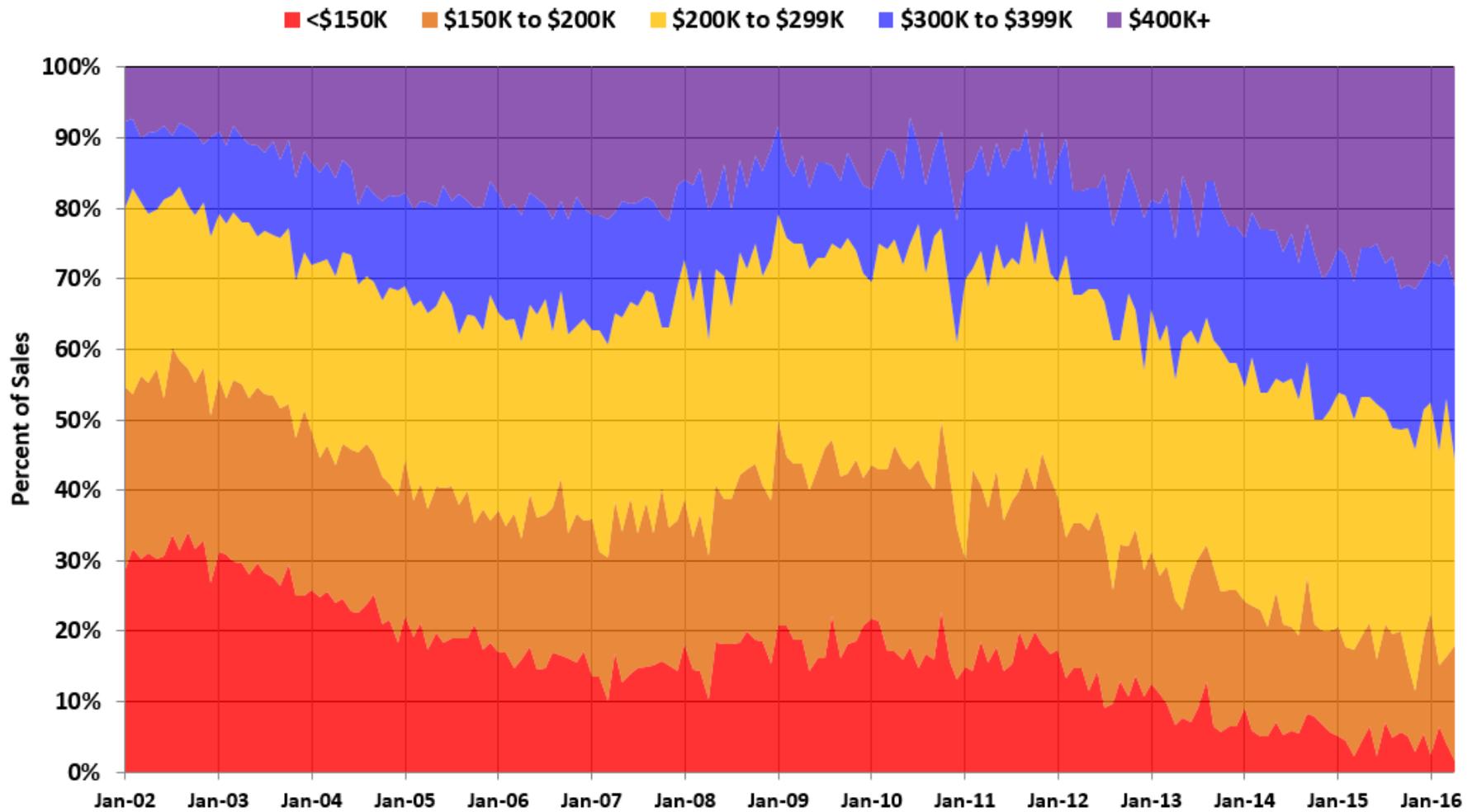
Foreclosure Wave Is Over

90 Day Defaults vs. Foreclosure Starts



New Home Sales By Price

New Home Sales by Price

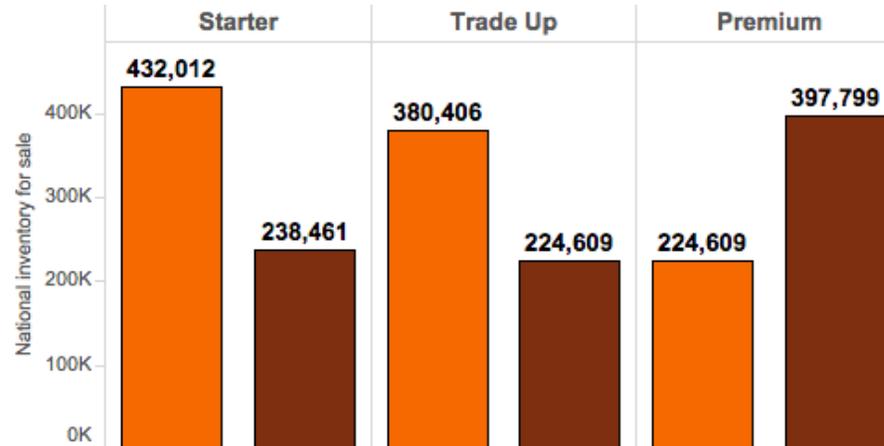


Squeezed Out

Squeezed out



Starter home inventory has fallen sharply ...



... and prices are rising ...



Dramatic Declines in Hottest Markets

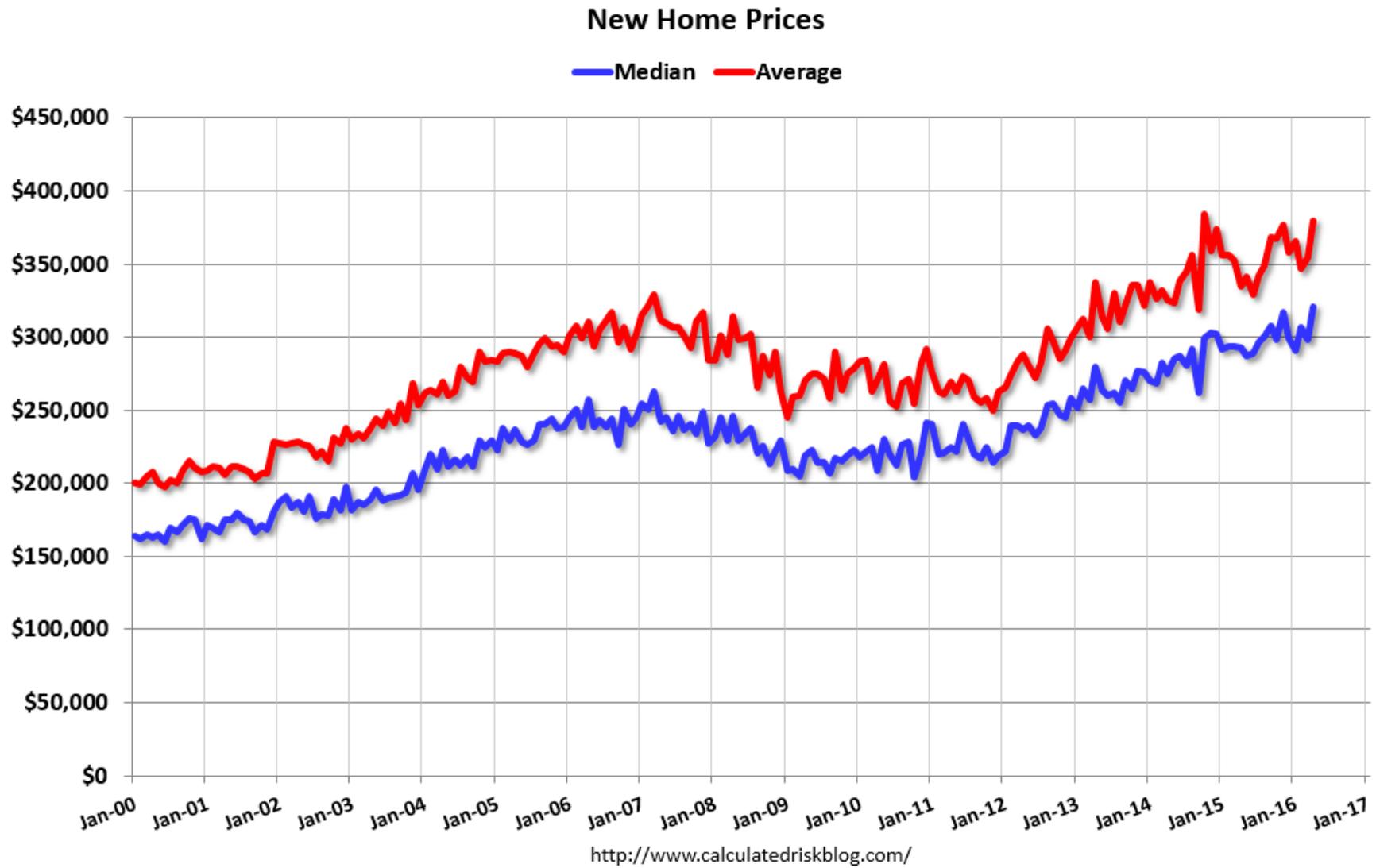
Toughest markets



Here are the toughest markets to find a starter home in the top 100 largest metro areas.
(SOURCE: Trulia; four-year change, 2012 Q1 - 2016 Q1)

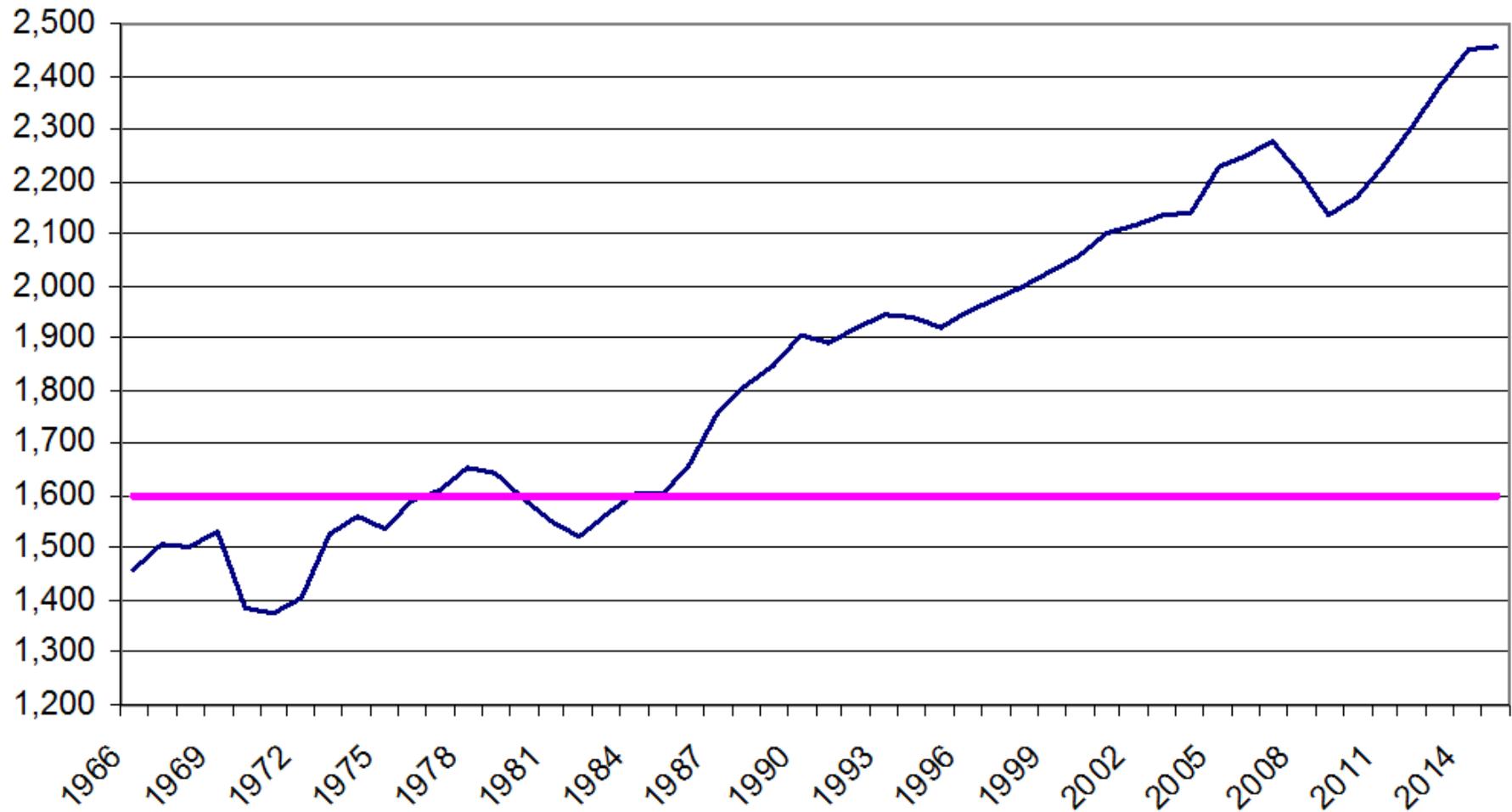
Metro	Starter Home Inventory	Median Starter Home Price	Additional Income Share Needed
Salt Lake City, UT	-88%	26%	2%
San Antonio, TX	-86%	3%	-2%
Austin, TX	-83%	32%	7%
San Diego, CA	-80%	65%	18%
Nashville, TN	-79%	35%	3%
Orange County, CA	-79%	52%	23%
Denver, CO	-77%	78%	14%
Houston, TX	-74%	16%	0%
San Francisco, CA	-74%	79%	25%
Portland, OR	-71%	50%	13%
Los Angeles, CA	-71%	65%	28%
Dallas, TX	-70%	41%	5%
Ventura County, CA	-69%	60%	20%
Oakland, CA	-69%	104%	29%
Seattle, WA	-68%	58%	15%
Sacramento, CA	-68%	89%	23%
Colorado Springs, CO	-66%	23%	5%
Charlotte, NC	-65%	11%	0%
Tacoma, WA	-65%	36%	7%
Raleigh, NC	-63%	7%	2%
San Jose, CA	-62%	82%	27%
Fort Worth, TX	-61%	29%	8%
Cambridge, MA	-61%	25%	5%
Daytona Beach, FL	-60%	54%	7%
Phoenix, AZ	-59%	93%	15%

Median New Home Prices

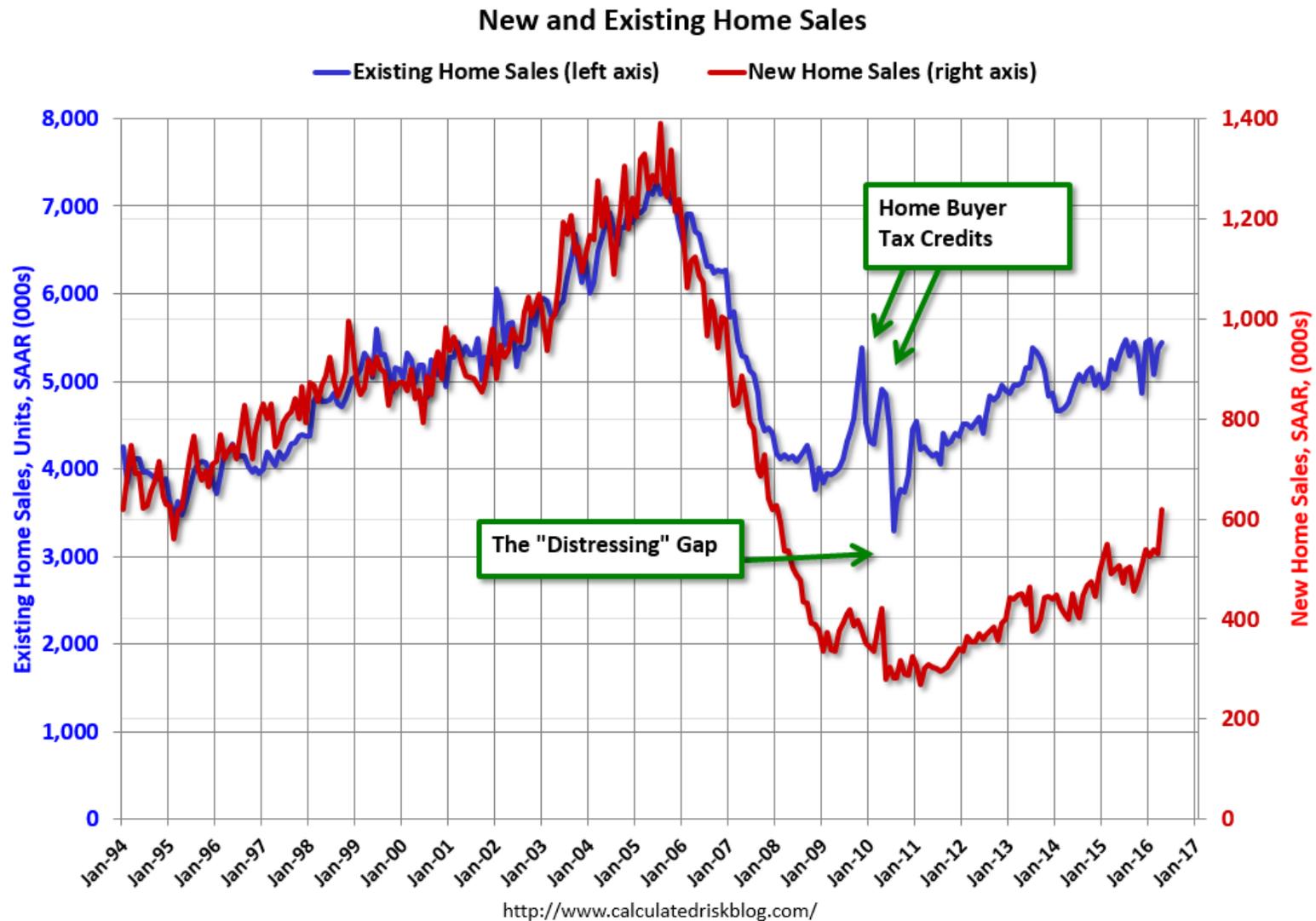


Median Square Footage

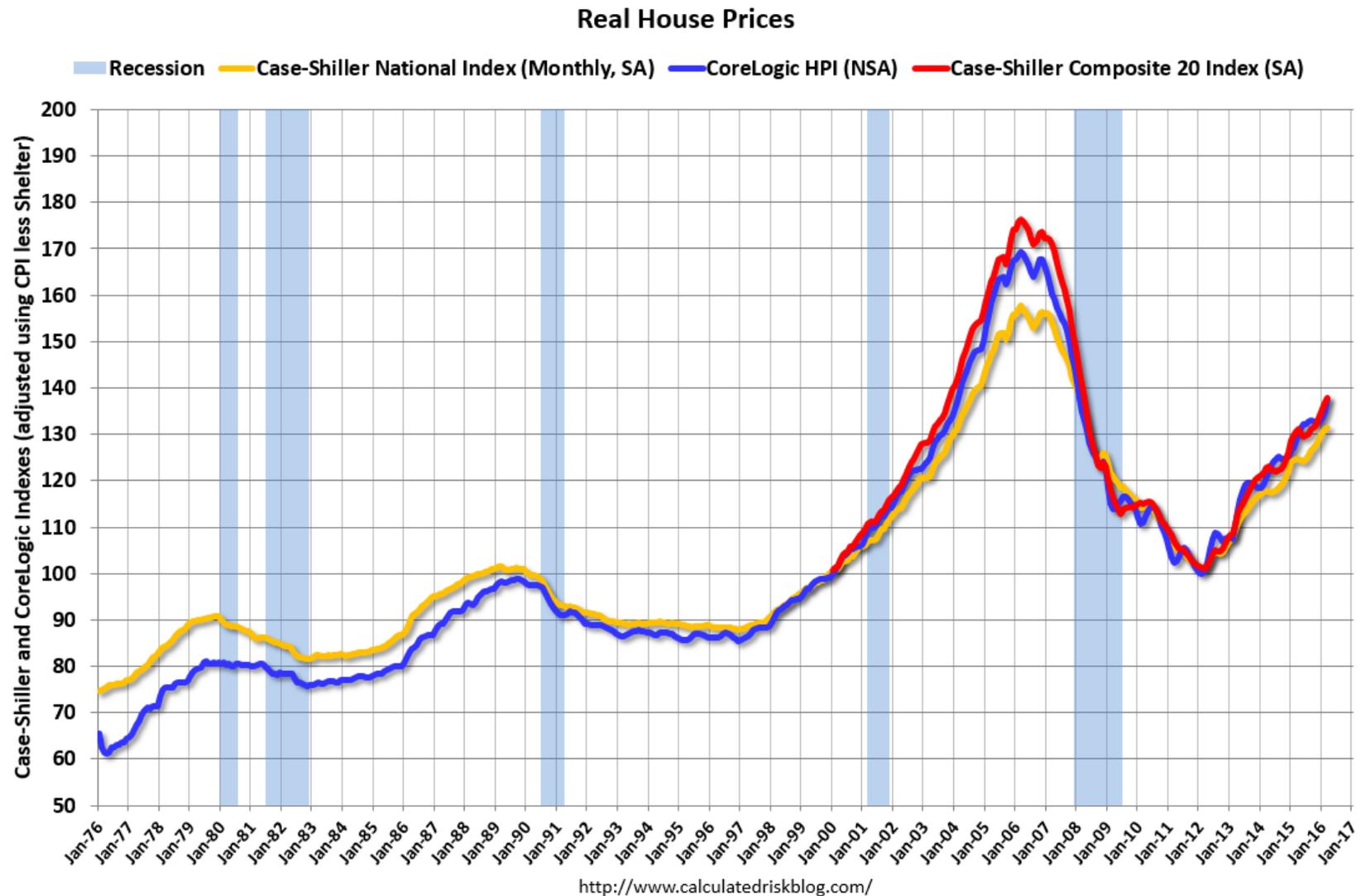
Median Square Feet of Floor Area, Completed Single-Family Homes



Distressing Gap



Real Home Prices On the Way Up



Why Aren't Builders Building Starter Homes?

- My own experience trying to build homes in Georgia:
 - Finished land costs \$40k-\$60k in starter home neighborhoods
 - Cost to build is \$55 per square foot, so 2000 sq ft home = \$110k
 - Total direct costs in most inexpensive areas = \$150k-\$170k
 - Add in G&A, financing, marketing costs along with time value of \$
 - Have to sell a home at or above \$200k
 - In desirable areas, land prices are much, much higher
- Further homebuilders are being squeezed on labor
- Simply, the margins aren't there
- So homebuilders have moved into the trade-up or luxury market
- Some like LEN are now building multi-family as well

Silver Bay owns 9,000 starter homes

- My recommendation is simply to buy what is in short supply and where future supply is limited
- SBY owns 8,981 single family rental homes
- The aggregate cost is \$135k, the average rent is around \$1200 a month
- The homes are in some of the strongest job markets with excellent demographics:
 - 30% of the homes are in Atlanta, 16% in Phoenix and 12% are in Tampa. The rest are primarily in Charlotte, Dallas, Orlando, SE Florida and Las Vegas
- Great operating stats:
 - 97% occupancy in q1
 - Rental rates up 4.8% on new move-ins and 3.3% on renewals

Valuation and upside very attractive

- SBY went public at end of 2012 for \$18.50 per share
- NAV was \$22 per share on 12/31, trading at 75% of NAV
- Smart capital allocation:
 - Bought back 545k shares in Q1 for \$7.9 million at an average price of \$14.43 per share.
 - Sold small Houston portfolio in early summer of 2015
- 50% debt to equity, with debt costing around 3.5%
- 5% home price appreciation, translates into big numbers
 - In 3 years, 5% portfolio growth sends NAV to \$26.50, without including dividends or the impact of future buybacks
- Limited downside with conservative debt, strong tailwinds and discount to NAV combined with 3% dividend

Summary

- Builders aren't building starter homes because it doesn't make financial sense
- Supply is tight. In specific cities, it is very tight
- Silver Bay represents a compelling risk/reward to own the kind of starter homes that are in such short supply in attractive growth markets

Update on 2015's presentation on ORM & UCP

- Last year, I presented on two stocks, Owens Realty (NYSE: ORM) and UCP (NYSE: UCP)
- ORM has continued to sell properties and is finally under escrow to sell its Miami project for \$75.5 million.
- Book value is now over \$20 per share, compared to recent price at \$16.50
- NAV is around \$25 per share if you include Tahoe project
- Get paid a 2% dividend while you wait
- UCP has been frustrating as majority owner PICO should sell the company
- Activists now on the board of PICO, now waiting



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