

Wall Street Private Equity Landlords Snapping Up Apartment Buildings

April 2019 update

Private equity and private real estate managers, drawing on capital from institutional investors, own at least a million apartment units around the United States, based on data from the National Multifamily Housing Council (NMHC).¹ This is more than twice the 500,000 apartment units owned by publicly-traded apartment real estate investment trusts (REITs).²

Tenants can pay a price for when corporate landlords buy their buildings. In some cases, private equity buyers have adopted a business strategy of pushing out long-time lower-income tenants – through rent hikes, harassing frivolous legal actions, spurious eviction notices, avoiding upkeep, and letting buildings fall into disrepair – to convert buildings in gentrifying areas into high-rent properties that can be sold for much more than their purchase price.³

While private equity investment in apartment buildings is not new, particularly in so-called “gateway” markets such as New York, Los Angeles, and San Francisco, following the financial crisis, private equity firms plowed money into the multifamily sector like never before, buying up hundreds of thousands of units. Focused on the massive Millennial generation’s move into apartments and the shift away from home ownership and towards renting (which the private equity industry helped create), private equity managers and other institutional buyers have been the main drivers of investment in apartments.⁴

Some private equity firms such as Blackstone Group, Starwood Capital, Lone Star Funds, and Brookfield Asset Management have gone from being relatively small or nonexistent players in multifamily investment to among the top owners in the industry, often by purchasing large portfolios of apartment properties or taking publicly-traded apartment REITs private.

Largest U.S. private equity/ private real estate apartment owners 2018

Company	Units Owned 2018 ⁵	NMHC Rank 2018	Company	Units Owned 2018 ⁶	NMHC Rank 2018
Starwood Capital Group	88,946	2	Carroll Organization	26,280	36
Blackstone Group	73,400	NA	FPA Multifamily	25,750	37
Lincoln Property Company	60,518	8	AIG Global Real Estate Investment Corp.	25,334	38
Related Companies	59,191	10	Heitman	24,963	40
PGIM Real Estate	52,338	12	Northland Investment Corporation	24,944	41
JPMorgan Asset Management	50,741	14	AEW Capital Management, L.P.	24,318	42
Greystar Real Estate Partners	49,487	16	Alliance Residential	23,902	43
Cortland Partners	42,102	22	GID	23,467	44
UBS Realty Investors LLC	39,177	24	Electra America/American Landmark	23,000	45
Fairfield Residential (Brookfield Asset Mgmt)	37,024	25	TruAmerica Multifamily, LLC	22,863	46
Nuveen / TH Real Estate	33,105	28	AMLI Residential	22,730	47
Invesco Real Estate	31,319	29	Berkshire Group	21,430	48
Harbor Group International, LLC	30,000	30	Peak Capital Partners	20,719	49
JRK Property Holdings	29,043	31	Lone Star Funds/ Home Properties	~20,000	NA
Sentinel Real Estate Corporation	28,500	33			

What is perhaps even more significant is the fact that recent and growing investments by investment managers like Starwood, Lone Star, Blackstone, and Brookfield mostly employ “value-added” or “opportunistic” strategies when investing in real estate.

Some private equity managers invest most of their capital into apartment buildings that can generate 8 to 10 percent returns, by using more debt to finance the purchase or targeting distressed sellers with undervalued buildings. Real estate managers such as JP Morgan, UBS, Heitman, Prudential and Invesco, which together own around 200,000 U.S. apartments are more likely to invest in luxury, class-A apartment properties with stable cash flows.⁷

Some value-added and opportunistic managers, like Blackstone, Starwood, and Lone Star take a more aggressive approach to their apartment investments. Lone Star Funds acquired Home Properties and promised investors it intended to generate a 25 percent internal rate of return.⁸ These high returns can be financed with loads of debt (up 80 or 90 percent in some cases), and also by raising rents and fees, sometimes quite sharply to extract more cash from the apartment properties. This can include purchasing more modest buildings, pressing working class tenants to leave to upgrade the apartments to raise the rents, attract more affluent tenants and sometimes flip the properties for a profit.⁹

Blackstone Group – The largest alternative asset management firm in the world with \$472 billion in managed assets,¹⁰ Blackstone is also the largest investor in U.S. housing, including over 73,000 apartments, 82,000 single family homes, and mortgages. Blackstone also began buying manufactured home communities in mid-2018¹¹ and owns mortgage lender Finance of America.¹²

Starwood Capital – Since 2016, Starwood has purchased more than 67,000 apartments by buying large portfolios of apartments from REITS (Equity Residential, 23,262 units)¹³ or by buying publicly-traded REITs outright (Milestone Apartments, 24,061 units¹⁴; Landmark Apartment Trust, 24,000 units¹⁵). Starwood Capital has also been active in the single-family rental space.

Brookfield Asset Management – Canadian private equity giant Brookfield bought apartment REIT Fairfield Residential out of bankruptcy in 2010. Backed by Brookfield, Fairfield now has 38,000 apartment units around the US.¹⁶ Brookfield is also a major owner of U.S. manufactured housing, acquiring 135 manufactured housing communities with 33,000 home sites.¹⁷

Greystar Real Estate Partners – Greystar is the largest apartment manager in the United States, managing some 418,000 units as well as owning nearly 50,000 units.¹⁸

Endnotes

¹ National Multifamily Housing Council (NMHC). “[NMHC 50 largest apartment owners, 2018](#).” 2019.

² *Ibid.*

³ Morgenson, Gretchen. “[As investment firms buy up buildings, tenants see bullies](#).” *New York Times*. May 9, 2008; Wishnia, Steven. “[How forcing tenants to move became a business model for NYC landlords](#).” *Village Voice*. September 18, 2017; Kim, Julia. “[Inside Manhattanville tenants’ fight against predatory landlords](#).” *Columbia Spectator*. February 21, 2018; Anderson, Scott Thomas. “[Sacramento is the land of corporate landlords](#).” *Sacramento News & Review*. February 8, 2018; Shabazz, Rasheed. “[Wall Street comes to Alameda](#).” *East Bay Express*. May 23, 2018.

⁴ Jones Lang LaSalle. “[JLL Multifamily Investment Outlook, H1 2017](#).” 2018.

⁵ [NMHC 50 largest apartment owners, 2018](#), with the exception of Blackstone, Lone Star Funds. Blackstone’s Livcor reports 60,000 units, <http://www.livcor.com/company>, accessed Mar 27, 2019. In addition, Blackstone owns [Stuyvesant Town \(11,200 units\)](#), [Parker Towers \(1,300 units\)](#), and [Kips Bay Court \(894 units\)](#) in New York City. Lone Star acquired apartment REIT Home Properties (42,000 units) in 2014 and has been steadily selling apartments in recent years.

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⁷ Open-End Real Estate Manager Search. Semi-Finalist Report, Milliman Investment Consulting for City of Miami Beach General Employees’ Retirement Plan, Apr 28, 2014. Core Open-End Commingled Real Estate Fund search, Callan Associates for State Universities’ Retirement System of Illinois, Jan 24, 2013.

⁸ “[Lone Star Gears Up for Another Mega-Fund](#),” *Commercial Real Estate Direct*, December 17, 2015.

⁹ Wishnia (2017); Kim (2018).

¹⁰ <https://www.blackstone.com/the-firm/overview>. Accessed March 2019.

¹¹ “[Blackstone makes first bet on manufactured housing](#),” *Bloomberg*, July 26, 2018.

¹² “[Blackstone mortgage venture set to become largest nonbank lender?](#)” *HousingWire*, August 10, 2015.

¹³ “[Equity Residential announces closing of sale of 23,262 apartment units to Starwood Capital](#),” Media Release, Jan 27, 2016.

¹⁴ “[Milestone Apartments REIT to be acquired by Starwood Capital Group](#),” *Multifamily Executive*, January 20, 2017.

¹⁵ Landmark Apartment Trust. [Press release]. “[Landmark Apartment Trust, Inc. completes sale to Starwood Capital Group and Milestone Apartments REIT](#),” January 27, 2016.

¹⁶ Fairfield Residential. [About Fairfield](#). Accessed April 2019.

¹⁷ “[Brookfield Asset Management To Acquire MHC Portfolio for \\$2 Billion](#),” *Costar*, May 12, 2016.

¹⁸ NMHC. “[NMHC 50 largest apartment managers 2018](#).” 2019; “[NMHC 50 largest apartment owners, 2018](#)”