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MARKETS

A Onetime Housing Skeptic Plans $1 Billion Bet on Homes

Donald Mullen Jr., who a decade ago helped oversee Goldman Sachs's lucrative bet against the housing market, is raising money for a big bet in the other direction

A street in the Piedmont Park neighborhood in Apopka, Fla., which has seen a shift from owners to renters with many single-family homes now owned by real-estate investment firms. *PHOTO: JOHN RAOUX/ASSOCIATED PRESS*

By **RYAN DEZEMBER**
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A big short is going long on the U.S. housing market.

Donald Mullen Jr., the former Wall Street executive who a decade ago helped oversee Goldman Sachs Group Inc.'s lucrative bet against the U.S. housing market, co-founded real-estate investment firm Pretium Partners LLC, which is raising $1 billion to buy single-family homes to rent out to tenants, according to fundraising documents reviewed by The Wall Street Journal.

Mr. Mullen, the onetime head of Goldman's mortgage-and-credit business, is now pitching pensions, endowments and other large investors on a wager that, four years after the housing market hit bottom, rents and home prices will continue to rise.

"We believe tight credit availability is preventing new households from being able to obtain mortgages to purchase their first home," Pretium wrote in its 69-page pitch to investors. "Households that have been unable to obtain mortgages have become renters, thus driving high occupancy rates and robust rent growth."

Through a spokesman, Mr. Mullen and Pretium declined to comment.

During the housing crash, the ranks of apartment renters swelled across the U.S., pushing up rents by 20% since 2012. In the second quarter, the U.S. homeownership rate fell to 62.9%, the lowest level since the government began keeping track in 1965.

At the same time, the housing market has stormed back, with the S&P CoreLogic Case-Shiller index of national home prices in July just 0.6% shy of its 2006 peak. It has jumped 37% since its 2012 bottom.

Real-estate investor Donald Mullen Jr., pictured in 2010, is raising $1 billion through his Pretium Partners to buy single-family homes to rent out. *PHOTO: HENRY S. DZIEKAN III FOR THE WALL STREET JOURNAL*

But economists expect the homeownership rate to keep declining over the next decade due to tough lending standards and a younger generation of potential buyers mired in student debt and less compelled to own homes.

During the crash, investors swooped into the housing market, picking up homes in foreclosure auctions and renting them out to tenants. In all, the six largest home buyers have spent more than $28 billion on U.S. houses since the latest peak, according to research firm Green Street Advisors.

Blackstone Group LP for a time spent $150 million a week on houses on its way to accumulating about 50,000 properties it manages through its Invitation Homes LP. American Homes 4 Rent, launched in 2012 by self-storage magnate B. Wayne Hughes with cash from Alaska's state oil fund, owns about 48,000 homes in 22 states.

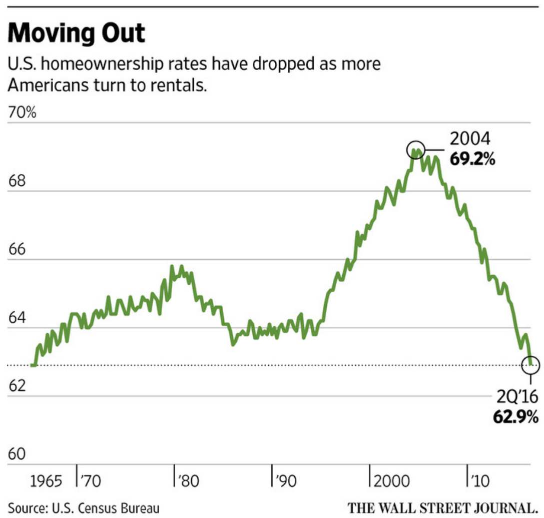
Real-estate moguls Barry Sternlicht and Thomas J. Barrack Jr. merged their rental-home pools earlier this year to make the third largest single-family-home landlord, Colony Starwood Homes, which said it owned about 31,000 houses as of June 30. Shares of Colony and American Homes 4 Rent have risen more than 23% this year.

Pretium, which rents and manages its homes under the name Progress Residential, owns the fourth-largest pool of U.S. homes. It is raising money for what would be its third fund dedicated to residential real estate. The first fund, which raised $1.2 billion in 2012, was used to buy more than 16,500 homes at big discounts. In 2014 Pretium raised another $900 million to purchase roughly 14,000 nonperforming home loans.

Pretium's third fund, like the first, aims to buy houses and rent them out. But with foreclosures having returned to normal levels, Mr. Mullen and his colleagues will likely be buying more properties on the open market and fewer on the courthouse steps.

The timing of the effort could be tricky. After a six-year boom, the overall market for rental properties has slowed amid a construction boom in luxury apartments, with apartment rents in some big cities declining in the third quarter, the first quarterly decline since 2010.

But single-family homes continue to show potential. Rents for new leases of single-family homes grew 4.25% in the third quarter of 2016, accelerating from 4.1% in the same quarter a year earlier, according to Green Street, even as the pool of rental homes has grown.



The evolution of the single-family-home rental business echoes Wall Street's entry into commercial real estate in the 1990s. After the savings-and-loan crisis of the 1980s, big Wall Street firms including Blackstone, Goldman Sachs and Morgan Stanley bought foreclosed commercial properties from Resolution Trust Corp., the entity set up by the U.S. government to clean up after that property bust. The firms went on to become major investors in commercial real estate well after prices rebounded.

In its latest pitch, Pretium said it won't likely find the bargains it once did. The firm plans to bulk up in ZIP Codes with favorable economic and demographic trends as it fine-tunes its portfolio of thousands of homes in an effort to build a potentially long-lasting rental business. It expects it will be able to buy homes in its target markets, which include Houston, Phoenix, Atlanta and Indianapolis, for roughly 20% less than it would cost to build similar homes.

Other big investors are grappling with a changing market as well. Colony Starwood recently said that during the second quarter it sold 608 homes for an average price of about $132,000 while it paid an average of about $196,000 each to acquire 87 homes.

Blackstone's buying, meanwhile, has slowed to about 20 homes a week, according to a person familiar with the matter.

"Prices have come up a lot," Blackstone President Hamilton "Tony" James told investors on a July call. "We're still buying some homes. But it's harder to buy in the volume that we once did."

—Laura Kusisto contributed to this article.