



MACK
INVESTMENTS

MACK offers Investors 9%-11% yields on rent-to-own

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MACK Companies, a Chicago-based single-family rental company, is selling 25-30 properties a month to investors at a 9%-11% cap rate, according to John Gutman, vice president of sales and acquisitions. Homes are sold with a guaranteed rental income—meaning a resident will be in the home or moving into the home. The company sells homes to high-net worth individuals, publicly-traded companies and hedge funds, he said.

The firm operates a rent-to-own strategy, whereby around USD 300 of a tenant's monthly rent check is saved as a down payment. The idea is to provide tenants an incentive to take better care of the house that they occupy, he said.

For this reason, 100% of the investors who buy homes from MACK renew the rent-to-own program with tenants after 24 months with an updated purchase price to fit a new projected market value, Gutman said.

The program also allows tenants with credit problems to become more financeable. Tenants are on the rent-to-own program for 24 months, and do not pay above market rents. "The industry norm is for the resident to pay above market rent to allow for additional monies to be held in escrow," Gutman said. That model is less beneficial to the resident, he said.

After the 24 months pass, the purchase price is reset along with the down payment balance if the tenant does not exercise the option to purchase, Gutman said. If the tenant does exercise the right to purchase, the investor would take a loss on their monthly income—a maximum of USD 7,200, Gutman said.

MACK's tenants exercise the rent-to-own program less than 5% of the time, Gutman said. And if tenants do exercise the option, investors can always take the upside and re-invest in another asset, he added.

The homes are sold as long-term investments, and are typically held that way by investors, Gutman said.

An average MACK tenant is a middle-class worker who earns around USD 60,000 for a family of five. "They're typically people who, at the height of the market, may have bought a home, but overleveraged and then got burned," Gutman said.

The company buys 30-40 homes in the Chicago area per month, and now has more than 1,500 homes under management, Gutman said. The company buys for around 50 cents on the dollar on the after-repair value.

He said that it is hard to qualify a cap rate at the time of purchase because the houses are inhabitable.

MACK spends an average of USD 50,000 to purchase each home, and a further USD 50,000 to revamp them. "The only thing we keep is the façade of the home," Gutman said. "They're essentially new construction homes-and we're able to get to a higher cap rate because of that," he said. Yields are also boosted because the company does everything in-house, he said.

As well as the 25-30 rent-to-own homes that the company sells to investors, it also sells around 5-10 homes per month from its fix-and-flip division, he said.

MACK is "internally funded", Gutman said, which means that the company buys in cash, redevelops with cash and then sells the finished property to investors. SFR inventory isn't about to dry up in the Chicago area, Gutman said. It's a judicial state, so the foreclosure process takes a while. "I've got properties that I acquired in 2011 that are still going through the system," he said, saying that the process takes an average of 18-24 months. He estimated that there are around 20,000 to 25,000 units "sitting waiting to be released."

Gutman believes that institutional SFR owners could use rent-to-own as a way to liquidate their portfolios in the event of a home price surge. "That's what would work best for the population instead of dumping these homes on the open market at the same time, which would negatively impact values," he said.

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