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Single-Family Rental REIT Report

3rd Quarter 2022

SFR REIT REPORT 3Q 2022

Rental growth slowed in 3Q22, however, growth remains well above historical averages. Rising mortgage rates continue to be a tailwind for the SFR sector as homebuyers are priced out of markets. Due to the increased capital costs, REITs pulled back on acquisitions and are on the sidelines as price discovery occurs.

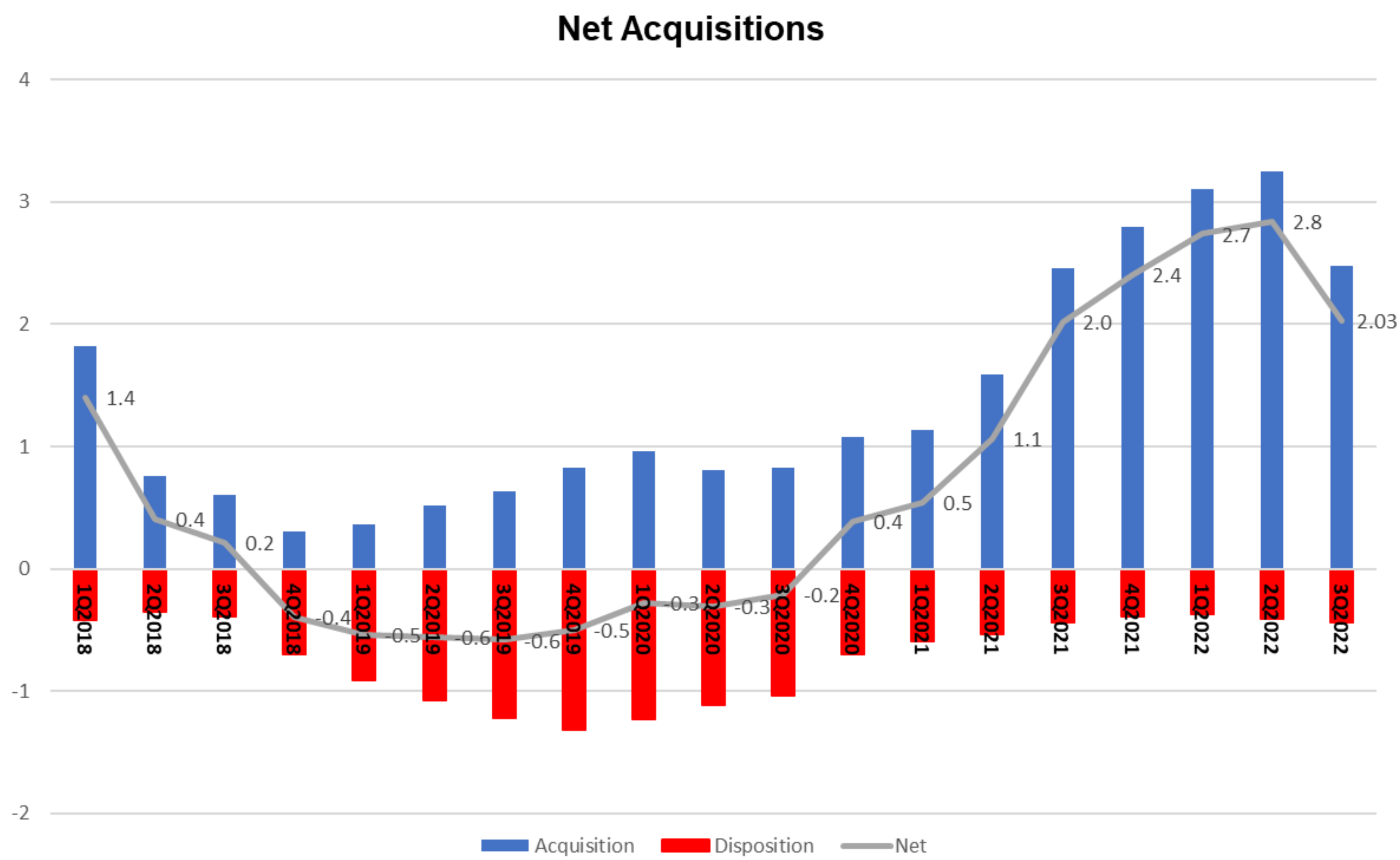
- Occupancies at the end of 3Q22 ranged from 97.1 to 97.9 percent.
- Same store revenue growth ranged from 7.8 to 8.3 percent.
- Same store NOI growth ranged from 8.6 to 10.2 percent.

	Performance				FY 2022 Guidance		
	Revenue	**Expenses**	**NOI**	**Occupancy**	**Revenue**	**Expenses**	**NOI**
INVH	8.3%	7.6%	8.6%	97.5%	8.75% - 9.25%	8.75% - 9.25%	8.75% - 9.25%
AMH	8.1%	6.1%	9.3%	97.1%	8.00% - 9.00%	7.00% - 8.50%	8.25% - 9.75%
TCN	7.8%	2.9%	10.2%	97.9%	8.0% - 9.0%	4.5% - 5.5%	10.0% - 11.0%
Avg.	8.1%	5.5%	9.4%	97.5%	8.67%	7.25%	9.50%

All three REITs revised revenue and NOI guidance downwards quarter-over-quarter. This resulted in an average 25 basis point decrease in revenue forecasts and 75 basis point decrease in NOI forecast. This is a reversal from the upward revisions made in 2Q22 of 50 basis points and 100 basis points, respectively.

Acquisition Activity

REITs pulled back on acquisitions in 3Q22, with net acquisitions totaling over just over $2B on a trailing 12-month basis.



Source: NAREIT T-Tracker

In 3Q22, Invitation Homes acquired 559 homes for $254 million, disposed of 197 homes for $74 million and revised its guidance for acquisitions downward from $1.5 billion to $1.1 billion in total gross acquisitions in 2022. This is substantially lower than the $2 billion in total gross acquisition guidance earlier in the year. Invitation has already acquired $1 billion year-to-date. Invitation indicated they are pulling back in acquisitions to assess the current market environment and average back in over time as new valuations occur. They indicate the market is currently trading near the mid-5 percent cap rate range.

American Homes 4 Rent added 410 homes in 3Q22 and deployed $155 million in capital which included 265 homes from the AMH Development program, and 145 homes acquired through their acquisition channel. These acquisitions were offset with 164 sold homes for $49 million for the quarter. American Homes 4 Rent indicated the acquisitions on the quarter were mostly in the 5 percent cap rate range, but most were put under contract in 2Q22. For now, American Homes 4 Rent is pulling back from most acquisitions as most deals on the market do not meet their criteria. They have seen 5 percent decreases in value but would likely need to see another 15 to 20 percent movement for deals to become attractive with the current cost of capital. American Homes 4 Rent will focus on their development program in the meantime with a land pipeline of over 15,000 lots.

Tricon acquired a record 2,000 homes in 3Q22 and reduced guidance to acquire 7,300 homes in 2022. The revision will fall short of their original 8,000 home goals. Tricon indicated their target cap rate increased from 5.50 percent to 5.75 percent or higher. However, with cost of capital moving up faster, most deals do not work. Tricon pulled its guidance of 50,000 homes by 2024 citing the current market environment and indicated they have $3 billion of dry powder to deploy as home prices correct and deals fall back into their buy box.

Home builders will continue to be a source of acquisitions for REITs and private institutions. Due to the rising interest rates, home builders are caught with sitting inventory. SFR operators have indicated a few months ago home builders were offering wholesale prices of 10 to 15 percent off. The discount has increased in recent months, now at 15 to 25 percent off.

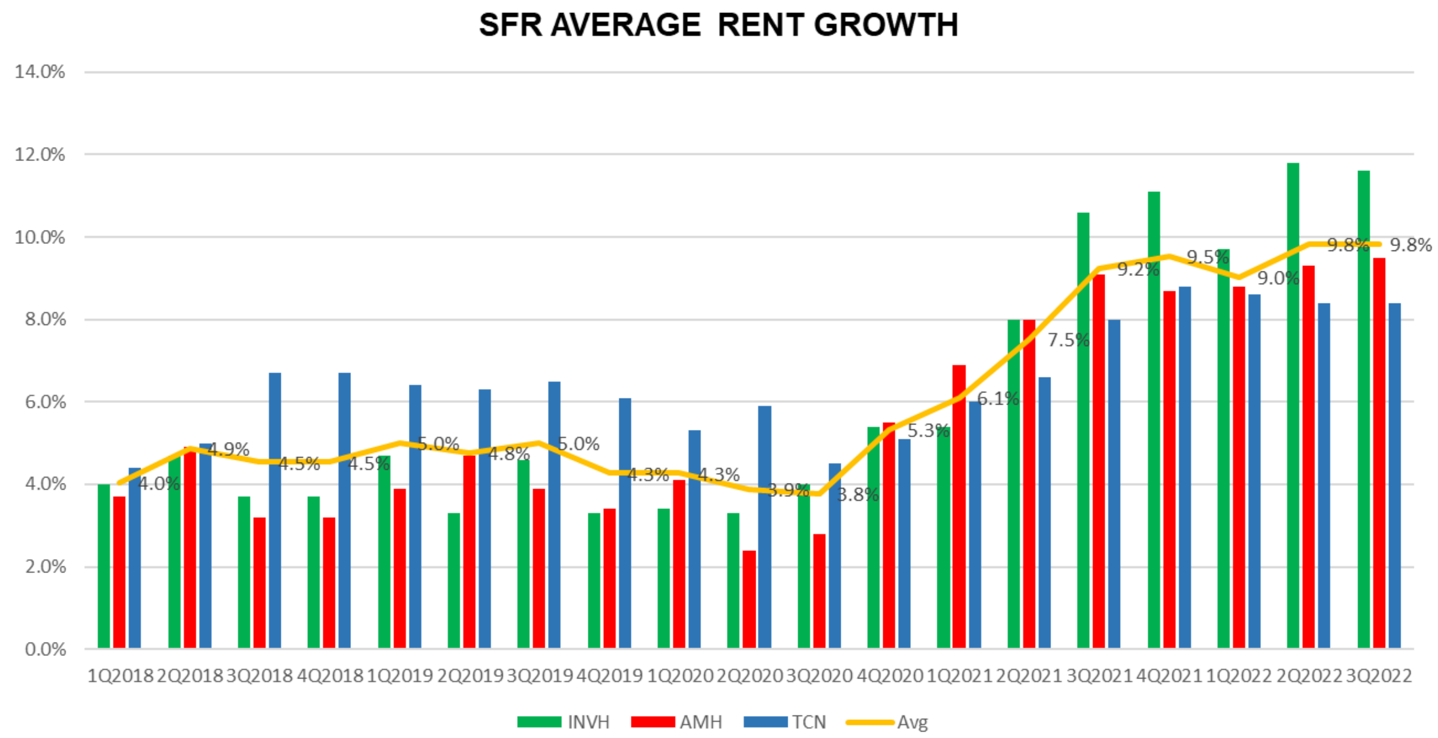
Institutional Portfolios

Public REITs such as Invitation Homes and American Homes 4 Rent are seeing more competition from private equity firms such as Pretium Partners which has reportedly operates 80,000 homes in its Progress Residential Platform and is now the second largest owner of single-family rentals. The top institutional owners are summarized in the following table.

LARGEST INTITUTIONAL OWNERS		
Company	Region	Units
Invitation Homes	West / Sunbelt	83,148
Progress Residential	Sunbelt / Midwest	80,000
American Homes	Sunbelt / Midwest	57,904
FirstKey	Sunbelt / Midwest	44,500
Main Street Renewal	Sunbelt	42,000
Tricon	Sunbelt / West	35,262
Source: Company Reports, Press Releases, Published Reports		

Rental Rates

Despite headlines of rents receding, rent growth remains significantly above historical averages. Rent growth averaged 9.8 percent for the three REITs with strong high 90 percent occupancies.



The third quarter registered blended average rent growth of 9.8 percent, unchanged from the prior quarter. Rental increases remain significantly above pre-pandemic performance of 3 to 5 percent. Blended rates continue to be propped up by new lease rental growth ranging between 12.5 and 16.3 percent, while renewals ranged between 6.6 to 10.2 percent. Tricon maintains a renewal cap for tenants.

3Q22 Rent Growth Breakdown

	Renewal	New	Blended
INVH	10.2%	15.6%	11.6%
AMH	8.3%	12.5%	9.5%
TCN	6.6%	16.3%	8.4%
Avg.	8.4%	14.8%	9.8%

Geographic Distribution

The Sunbelt continues to lead SFR investment. Florida and Texas make up 27 percent to 37 percent of the REITs portfolios are heavily weighted towards southeast markets ranging between 58 percent to 79 percent of portfolio distribution.

SFR REIT Geographical Distribution			
Region	**INVH**	**AMH**	**TCN**
Southern California	9%	--	1%
Northern California	5%	--	3%
Seattle	5%	2%	0%
Phoenix	11%	6%	8%
Las Vegas	4%	3%	3%
Reno	--	--	1%
Denver	3%	0%	0%
Salt Lake City	--	3%	0%
Western US	**37%**	**14%**	**16%**
South Florida	10%	--	1%
Tampa	10%	5%	8%
Orlando	8%	3%	3%
Jacksonville	2%	5%	4%
Florida	**31%**	**13%**	**17%**
Atlanta	15%	10%	20%
Carolinas	6%	15%	19%
Nashville	0%	6%	5%
Southeast	**22%**	**31%**	**45%**
Houston	3%	5%	6%
Dallas	3%	7%	8%
San Antonio & Austin	--	2%	4%
Texas	**6%**	**14%**	**18%**
Chicago	3%	3%	0%
Minneapolis	1%	--	0%
Indianapolis	--	5%	5%
Cincinnati & Columbus	--	7%	0%
Midwest	**4%**	**15%**	**5%**
Other	**0%**	**13%**	**0%**
Source: REIT 3Q22 SEC Filings			

iBuyers

Almost one-year removed from Zillow shutting down its iBuying program, Redfin follows in its footsteps. Zillow's iBuying program lost $881 million in 2021 during one of the best housing markets in recent history. Redfin in their 3Q22 call announced they would shut down their RedfinNow program selling their inventory by 2Q23. The company reported a net loss $90.5 million in 3Q22 and expects a net loss between $118 and $134 million in 4Q22, mostly due to losses of the iBuying program. Redfin CEO, Glen Kelman, expressed iBuying was never a means to an end for Redfin, this is unlike Opendoor, which was soley created for iBuying and now plans to adjust its business model in this changing environment. Opendoor posted a net loss of $928 million in 3Q22, more than double the net loss Zillow posted in 3Q21 when it decided to shut down its iBuying program. Many appraisals in the SFR space are done with AVM and algorithms. With the losses piling up for the algorithm-based iBuyers, is it time to question if these algorithms have a place in the valuation space?

Conclusion

Acquisitions will remain muted as price discovery continues to occur. All operators believe there are still strong fundamentals in the single-family rental market and expect operational performance to remain strong even in a downturn.

For more information on the single-family sector, please reach out to:

Kristopher C. Oxtal, MAI
Principal at Capright
1808 Wedemeyer Street
Suite 312
San Francisco, CA 94129
(813) 215-7071
koxtal@capright.com