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Single-Family Rental REIT Report

1st Quarter 2023

SFR REIT REPORT 1Q 2023

As we start 2023, the single-family rental sector appears to be in a phase of notable transition. Following a period of significant growth, the market is undergoing a temporary slowdown, creating an atmosphere of uncertainty and opportunity alike.

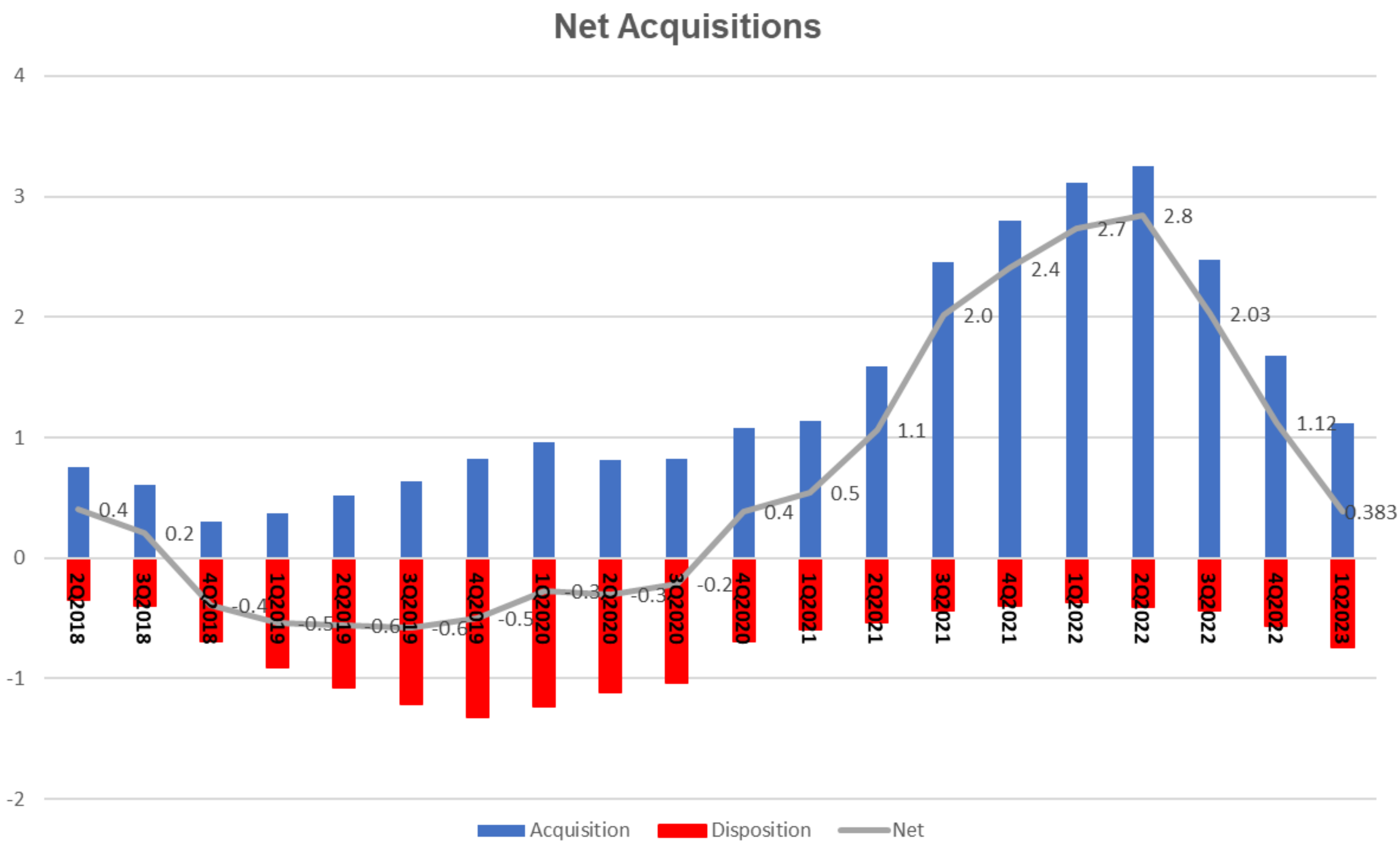
- Occupancies for 1Q23 ranged from 97.2% to 97.8%.
- Same store revenue growth ranged from 4.9% to 7.7%.
- Same store NOI growth ranged from 5.0% to 6.2%.

	Performance (1Q23)				FY 2023 Guidance		
	Revenue	**Expenses**	**NOI**	**Occupancy**	**Revenue**	**Expenses**	**NOI**
INVH	7.7%	14.0%	5.0%	97.8%	5.25% - 6.25%	7.50% - 9.50%	4.00% - 5.50%
AMH	7.7%	12.2%	5.4%	97.2%	5.00% - 7.00%	8.75% - 10.75%	3.00% - 5.00%
TCN	4.9%	2.0%	6.2%	97.3%	6.00% - 7.50%	6.00% - 7.50%	6.00% - 7.50%
Avg.	6.8%	9.4%	5.5%	97.4%	6.17%	8.33%	5.17%

All three REITs maintained FY 2023 guidance. Year-over-year occupancies were down 50 bps while revenue growth decreased from an average of 9.6% to 6.8% and expenses increased from an average of 6.0% to 9.4%. This resulted in a YOY decrease in NOI from 11.4% to 5.5%. Based on FY 2023 guidance, this trend will likely continue with revenue falling back to a normalized level while expenses such as real estate taxes and insurance continue to chip away at NOI.

Acquisition Activity

Acquisition activity experienced a lull in 1Q23, with net acquisitions totaling only $0.38B on a trailing 12-month basis.



Source: NAREIT T-Tracker

Invitation Homes became a net seller. The company acquired 181 homes in 1Q23 for $62 million and disposed 284 homes for $95 million. INVH highlighted their new product pipeline is approaching $1 billion as the acquisition market slows. INVH believes there will be opportunities to acquire smaller operators that will have trouble scaling up and gaining the efficiency they need to make their operations work. INVH indicated the market is in the low to mid-5% cap rate range if you wanted to acquire at scale in today's environment.

American Homes 4 Rent (AMH) also became a net seller in 1Q23. AMH added only 13 homes in 1Q23 and delivered 466 homes from the AMH Development program. These acquisitions were offset by 670 sold homes to third parties. AMH indicated acquisition programs remain on pause as they look for stabilization in values and capital markets. AMH believes at scale acquisitions would need to be in the low to mid-5% cap rate range today but their buy box is in the upper-5 to 6% range. AMH believes the homes they will be delivering later this year will be in the 6% range. It is important to note, AMH dispositions averaged a high-3% cap rate which was generated almost entirely by MLS sales, indicating the disconnect to homeowner versus investors.

Tricon acquired only 409 homes during 1Q23 and was the only of the three that was still a net acquirer. Tricon indicated they plan to scale up acquisitions in the second quarter through MLS acquisitions as the Spring home listing season begins and inventory becomes available. Tricon maintained their target cap rate of 5.50% to 6.00% however, they noted closer to 6% is the preference in most markets. Tricon reiterated the sentiment of INVH and AMH that acquisitions at scale could be achieved in the low 5% cap rate range in the current environment however, they would need a reduction in their cost of capital to act on these acquisitions.

Private institutions are still pushing deals to the finish line as REITs have pulled back, albeit at a substantially slower pace. John Burns Research and Consulting indicated institutional investors (those owning over 1,000 homes) purchased 90% fewer homes in the first two months of 2023 than in 2022. However, with INVH becoming a net seller, Progress Residential was able to increase their number of homes to 85,000, becoming the largest owner in the sector. Private funds are willing to transact in the low 5% range and take on negative leverage for 12 months to continue to scale their operations. There is a portfolio out to market with pricing guidance in the low 5% range with reportedly good traffic on the listing. Pricing for the portfolio is in-line with REIT operator comments of being able to acquire at scale in the low-5% range.

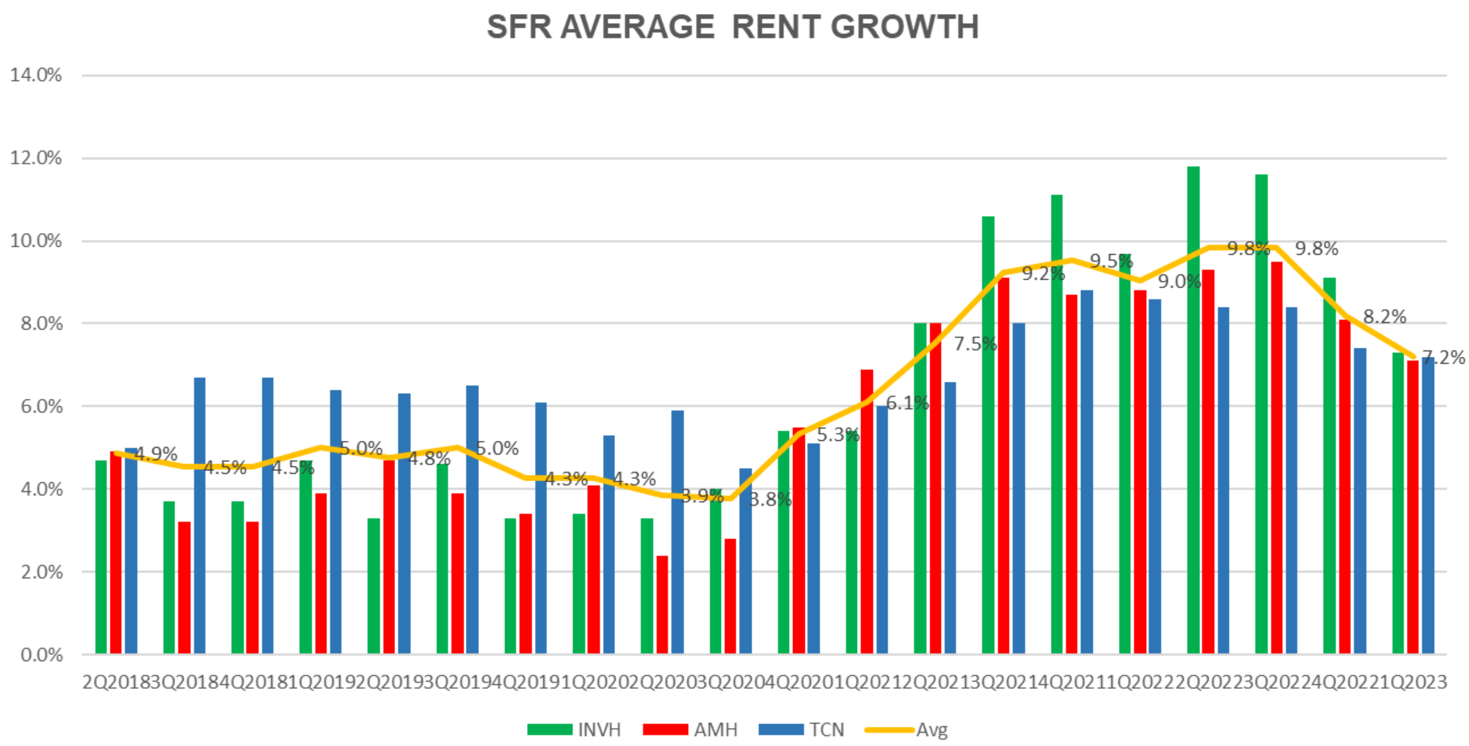
Institutional Portfolios

Public REITs such as Invitation Homes and American Homes 4 Rent are seeing more competition from private equity firms such as Pretium Partners which reportedly operates over 85,000 homes in its Progress Residential Platform and is now the largest owner of single-family rentals. The top institutional owners are summarized in the following table.

LARGEST INTITUTIONAL OWNERS		
Company	Region	Units
Progress Residential	Sunbelt / Midwest	85,000
Invitation Homes	West / Sunbelt	83,010
American Homes	Sunbelt / Midwest	57,736
FirstKey	Sunbelt / Midwest	50,000
Main Street Renewal	Sunbelt	44,000
Tricon	Sunbelt / West	36,104
Source: Company Reports, Press Releases, Published Reports		

Rental Rates

Rent growth is normalizing and will continue to moderate over the year. While the focus on year-over-year rent growth still shows healthy revenue increases of over 7%, month-over-month trends are showing flat to down in some markets. The softening in rent growth can somewhat be attributed to seasonality but is also due to consumer sentiment.



First Quarter 2023 registered blended average rent growth of 7.2%, a 100-basis point decrease from the prior quarter. Rental increases remain significantly above pre-pandemic performance of 3 to 5%. The 2023 guidance remained unchanged and expects further slowing of rent growth through the year with an average revenue guidance of 6.17%.

1Q23 Rent Growth Breakdown			
	Renewal	**New**	**Blended**
INVH	8.0%	5.7%	7.3%
AMH	6.8%	7.8%	7.1%
TCN	6.5%	10.3%	7.2%
Avg.	7.1%	7.9%	7.2%

Geographic Distribution

The Sunbelt continues to lead SFR investment. Florida and Texas make up 27% to 37% of the REITs portfolios are heavily weighted towards southeast markets ranging between 58% to 80% of portfolio distribution. INVH and AMH were both net sellers in only a few markets which included Phoenix, Atlanta, Houston, Dallas and Chicago. Tricon was only a net seller in Southern California and South Florida.

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%**	**15%**
South Florida	10%	--	1%
Tampa	10%	5%	8%
Orlando	8%	3%	3%
Jacksonville	2%	5%	4%
Florida	**31%**	**13%**	**16%**
Atlanta	15%	10%	20%
Carolinas	6%	15%	19%
Nashville	0%	6%	5%
Southeast	**22%**	**31%**	**45%**
Houston	3%	4%	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 1Q23 SEC Filings			

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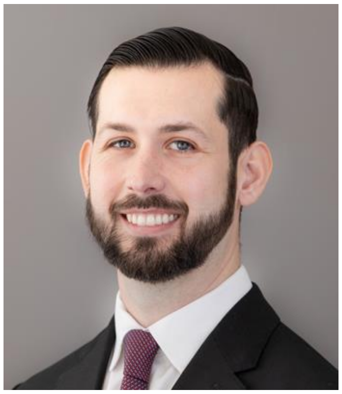
Conclusion

Economic factors are playing a significant role in the slowdown, fears of recession and lower consumer confidence started a decline in demand starting towards the latter half of 2022. This led to softening rent growth, which in some markets has turned negative. Meanwhile, expenses are starting to increase at a faster pace than rents, which will continue to put pressure on deals as the capital market environment remains challenged. Due to consumer confidence, household formation has trended towards a normalized level which will put pressure on housing demand in 2023. Longer-term trends are expected to remain positive with strong demand to return in 2024 and 2025.

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



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