BUILD-TO-RENT: THE SINGLE-FAMILY RENTAL BOOM

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SFR LANDSCAPE

DEFINING A RAPIDLY EVOLVING PRODUCT TYPE

- **Low-Medium Density Rental and Single-Family Rental (SFR)**
  - **Purpose-Built SFR Communities / Build-For-Rent (BFR)**
    - **Horizontal Multifamily**
    - **BFR SFA (Duplex/ Townhome)**
    - **BFR SFD**
  - **Institutional SFR Aggregators / Scattered Site**
    - **Combination of SFD / SFA**
  - **Small-Scale Investors/Owners**
    - **Combination of SFD / SFA**

BFR Communities provide cohesive offerings of single-family rental homes, with on-site management & maintenance *within the below three subcategories:*

Horizontal Multifamily Communities *share many similarities with multifamily properties in terms of unit sizes, unit types, and amenities, but does not stack units*

BFR Single-Family Attached *vary in scale, density, and orientation, but typically provide attached garages and larger unit sizes than horizontal multifamily communities*

BFR Single-Family Detached *typically offer the largest homes of the three sub-categories, often containing three or more bedrooms*

Institutional SFR Aggregators / Scatter Site consist of uniformly branded properties that are professionally managed and utilize a master leasing and operating platform; given housing supply constraints, aggregators are moving to bulk home takedown structures in partnerships with homebuilders

Small-Scale Investors/Owners represent the largest share of units in the single-family rental market; homes are owned and operated by small-scale investors who typically own fewer than three rental properties

Single-Family Definition: *Single-family structures include fully detached, semi-detached (semi-attached, side-by-side), row houses, duplexes, quadruplexes, and townhouses. For attached units to be classified as single-family structures, each unit must be separated by a ground-to roof wall, have a separate heating system, individual meters for public utilities, and no units located above or below.*

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Source: RCLCO

MARKET OVERVIEW

LANDSCAPE

Demand Drivers: Mature Millennials and Renters by Choice

For-sale housing has become increasingly unaffordable due to limited supply increases. Debt-burdened Millennials are entering prime housing-formation years, but many cannot afford to buy, driving a surge of demand for larger rental units to accommodate families. Renters-by-choice also drive demand, choosing to rent due to lifestyle preferences (convenience, flexibility, low maintenance) rather than financial limitations.

Supply Conditions: Dominated by For-Sale Conversions, Purpose-Built Gaining Traction

There are approximately 22 million single family rentals in the United States, representing over a third of all rental housing supply. For-sale conversions have been the primary source of SFR supply additions, especially from foreclosures. Purpose-built single family rental is on the rise, increasing from an average of 3.5% of single family completions in the 2000s, to 5.1% in the 2010s.

Opportunity: Demand Likely to Continue Outpacing Supply

RCLCO projects demand for 2.5 million additional single family rental units over the next decade. If purpose-built SFR continues trending up, approximately 700,000 new SFR units could be delivered in the same period. If foreclosure rates remain at their five-year average, own-to-rent conversions could add 728,000 SFR units in the next decade, but if COVID causes foreclosure rates to spike, this figure could be much higher (a 1% average foreclosure rate would equate result in 1.3 million SFR additions). This still leaves unmet demand for an additional 500,000 to 1.1 million units of new SFR product over the next decade.

Large homebuilders are entering the build-to-rent space, but they are unlikely to be able to fulfill all unmet demand (the four largest builders delivered 143,000 homes in 2019—at this rate, they would need to devote 39% to 77% of activity to rental construction to address all unmet demand).

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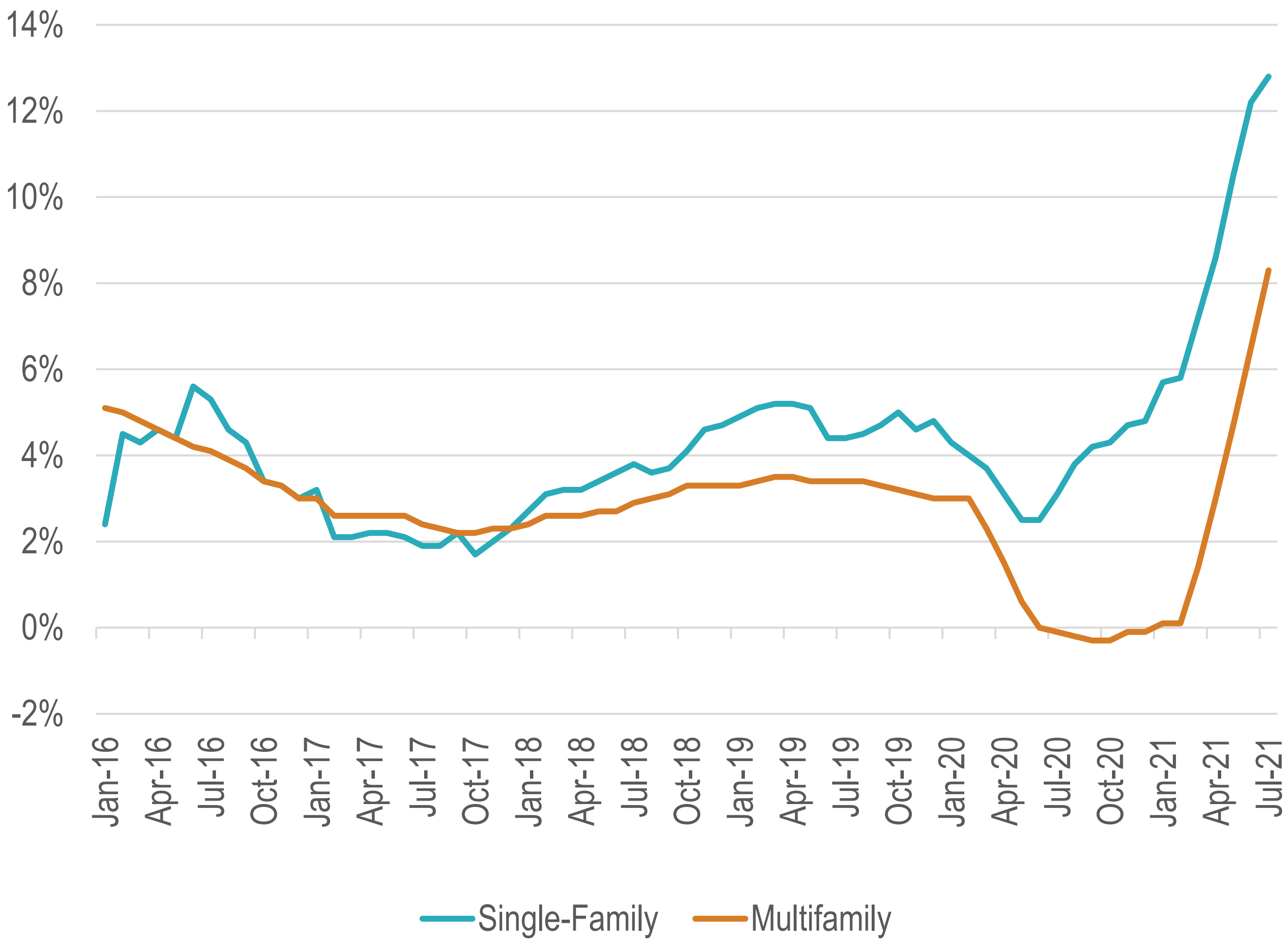
IMPACT OF COVID-19

Short-Term Economic Factors Combined with Long-term Demographics Drive Demand

- From July 2020 to July 2021, asking rents for professionally managed SFR homes rose almost 13% nation-wide
- This rent growth has been driven by factors, including:
  - Demand from households who cannot afford to buy due to elevated single-family home pricing and low inventory
  - Relocations from cities due to Covid-19
- Increasing number of households entering the life stage where they want single family
- Segment of population with strong incomes but savings/resources-constrained is growing, households have added burden of financial stress caused by Covid-19

Rent Growth By Housing Type*
United States; 2016 – Q2 2021



Note: Rent growth data from Yardi Matrix; only tracks professionally managed properties
Source: RCLCO, Wall Street Journal, Yardi Matrix

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IMPACT OF COVID-19

Shift toward institutional ownership accelerated during Covid-19

- During Covid-19 due to eviction moratoriums and many renters falling behind on rent payments, often smaller landlords are cashing out in a seller's market
- 11% of single-family rental landlords surveyed said they sold at least one of their properties, and 12% sold their entire portfolio, because of economic fallout from Covid-19 according to The National Rental Home Council
- Through the first half of 2021, investors have purchased $87 billion in single-family homes, including a record 68,000 homes in Q2, in large part due to the cheapness of debt and rising home prices.
- More institutions now view the suburban home as a core asset, on par with apartment buildings or office towers, which have long been features of large investor portfolios. More software and technology is also available to help manage and operate thousands of disparately located houses.
  - This trend towards longer-term institutional holdings in SFR is a shift from the first wave of single-family investors, who snapped up foreclosed homes after the financial crisis only to flip them a few years later.
- Build-for-rent homes (single-family purpose-built rental product) account for about 12% of single-family construction in 2021
- However, CBRE estimates that only 2% to 3% of all SFR homes are institutionally owned.

Source: Business Journals; The Wall Street Journal; RCLCO

SFR OUTLOOK

SFR as an asset class is expected to outpace multifamily, office, retail, storage, and hospitality growth in the next few years; after proving recession proof during COVID-19

- In 2020, SFR REITs outperformed other property-sector REITs by 23%
  - Since 2019, SFR REITs have been the highest performing property sector
- Additionally, shares of the two largest single-family rental companies, Invitation Homes and American Homes 4 Rent, have grown 38% since February 2020.
- In February of 2021, the single-family rental market was estimated at $3.4 trillion, compared to $3.5 trillion in the multifamily market
- Demographic factors continue to look promising for single-family rentals as Millennials move into family formation years
- Economic factors, such as the growing lack of mortgage affordability (due to high debt burdens and wage levels that lag the cost of living), is a primary driver of single-family rental growth.
- Single-family rental cap rates declined 0.65% between Q1 2020 and Q1 2021, bringing cap rates to 6%, near the all-time low
- SFR securitizations reached an all-time high of about $19 billion in 2020, indicating the bullishness towards the single-family rental market.

Source: Business Journals; Mornignstar; The Wall Street Journal; Roofstock; Arbor Realty Trust; ULI; RCLCO

DEMAND DRIVERS

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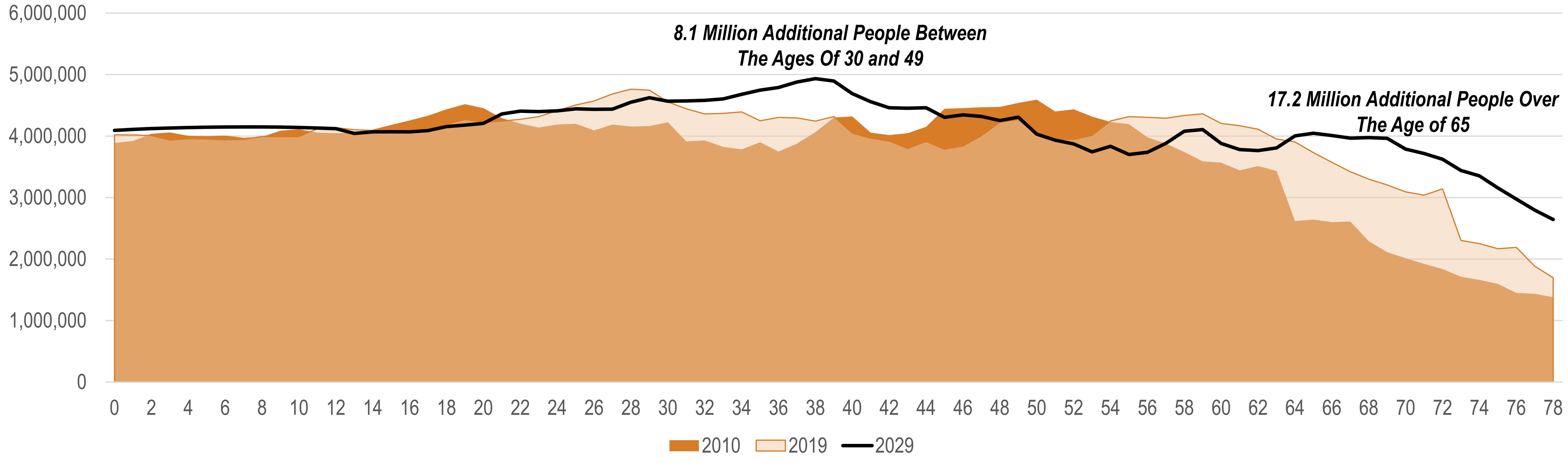
POPULATION TRENDS

- Going forward, the number of adults under the age of 30 is projected to level out, if not decrease slightly.
- At the same time, significant population growth is expected to occur between the ages of 30 and 49. The number of people in this age bracket is projected to grow by 9.7% (8.1 million people) over the next 10 years.
- Likewise, the number of people over the age of 65 is projected to grow by 32.3% (17.2 million people).

Historical, Current, and Projected Population by Age
United States; 2010, 2019, 2029 (p)

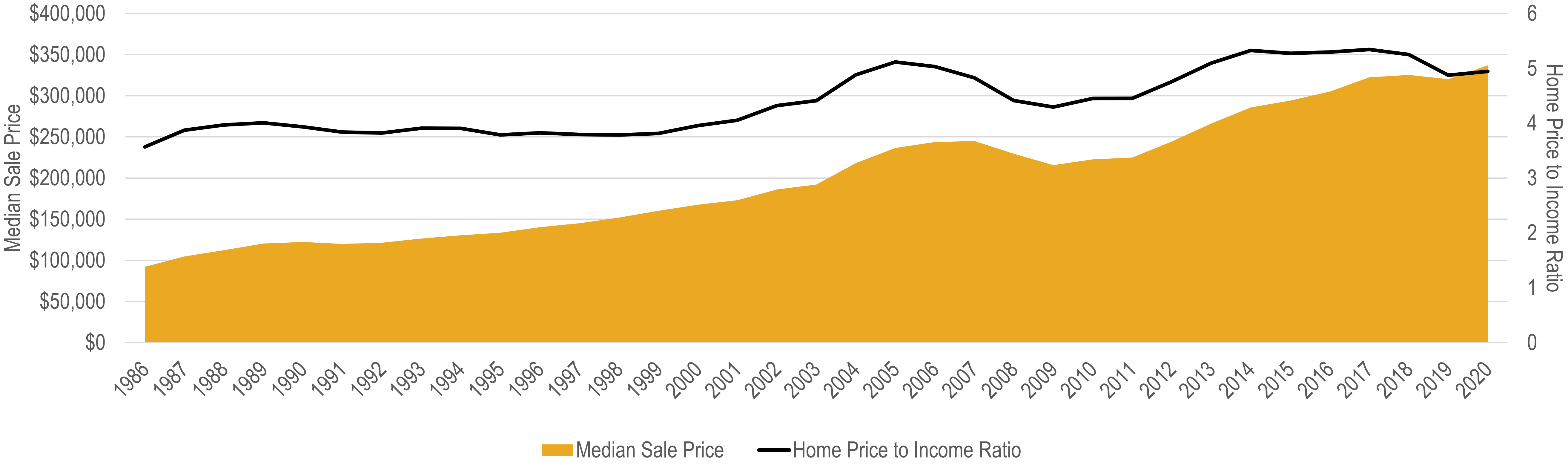


Source: RCLCO, American Community Survey

HOUSING AFFORDABILITY

While lifestyle shifts have impacted the number of households purchasing homes, the continued decrease in housing affordability has played a major role as well. The median sales price for a home in the U.S. has increased steadily since the Great Recession, while incomes have grown at a slower rate. In 2020, the median home price is 5 times higher than the median income in the U.S., a significant change from the average of about 4.0x from 1986-2000. The relative unaffordability of homeownership has pushed potential homeowners – especially younger families who desire a single-family style of living environment but can't afford ownership – towards SFR product.

Home Price to Income Ratio and Median Sales Price
United States; 1986-2020



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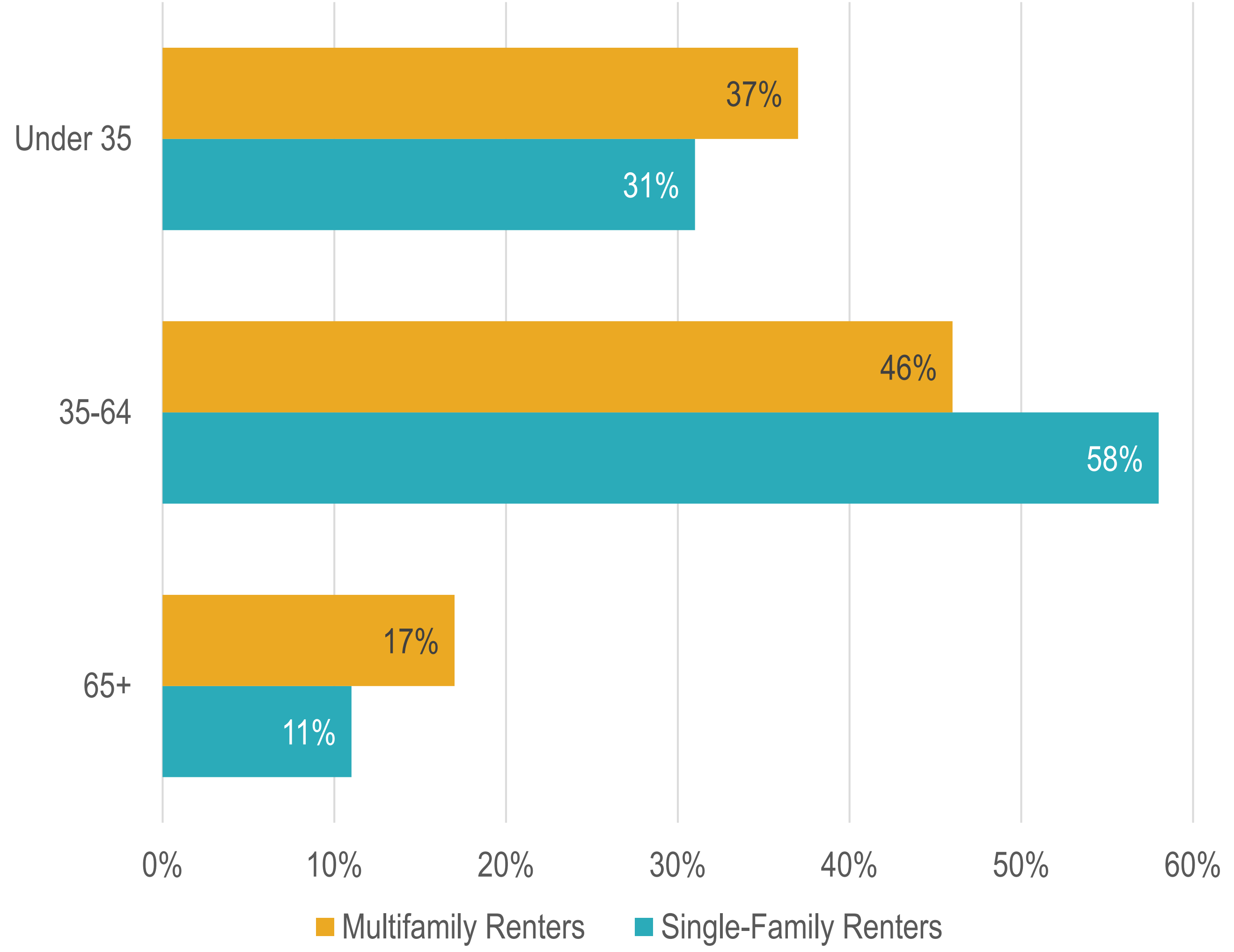
Source: US Census Bureau; RCLCO

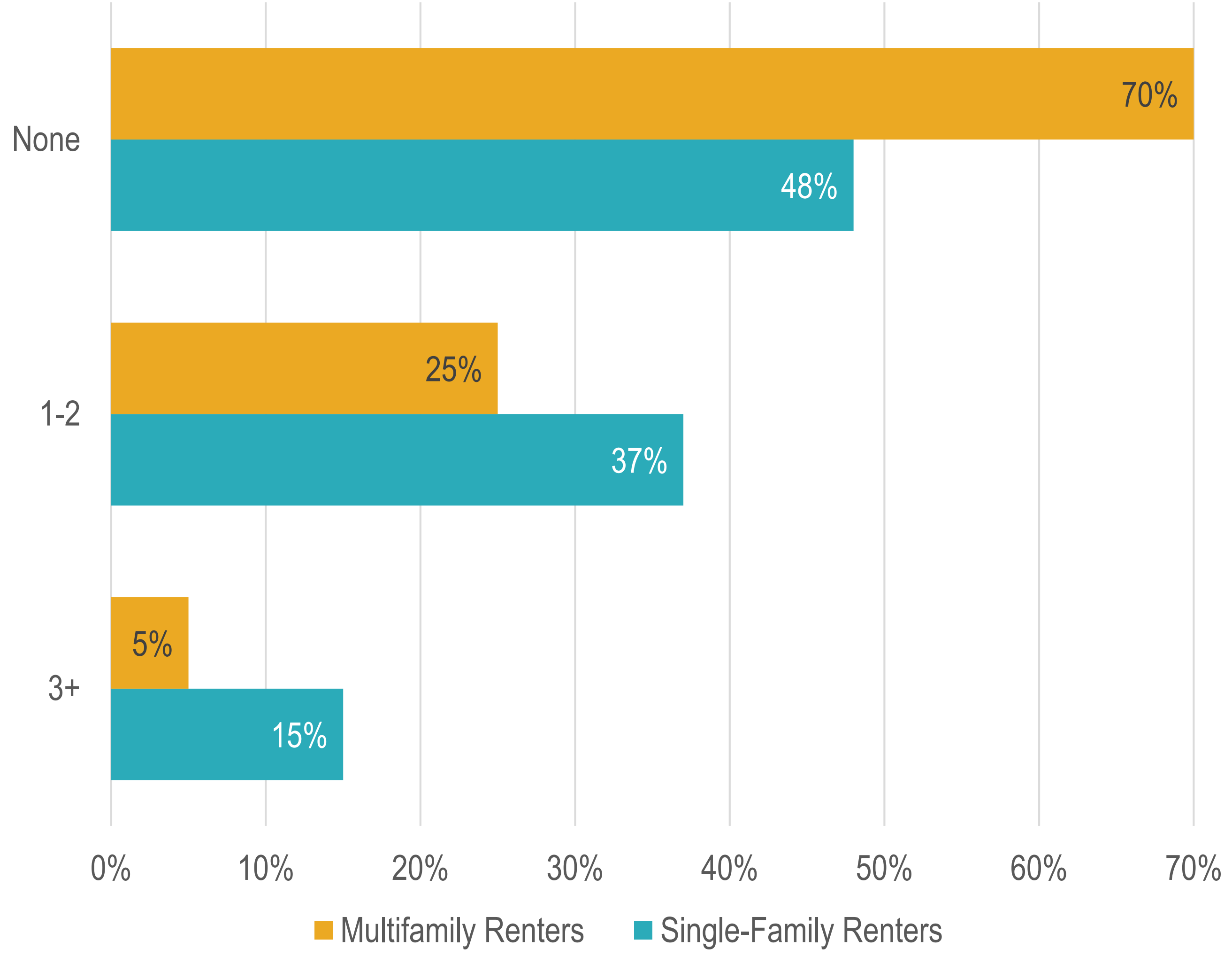
SFR CUSTOMER OVERVIEW

Single family renters are more likely to be between the ages of 35 and 64 and have children than traditional multifamily renters

Age Groups by Rental Type
United States; 2019



Number of Children by Rental Type
United States; 2019



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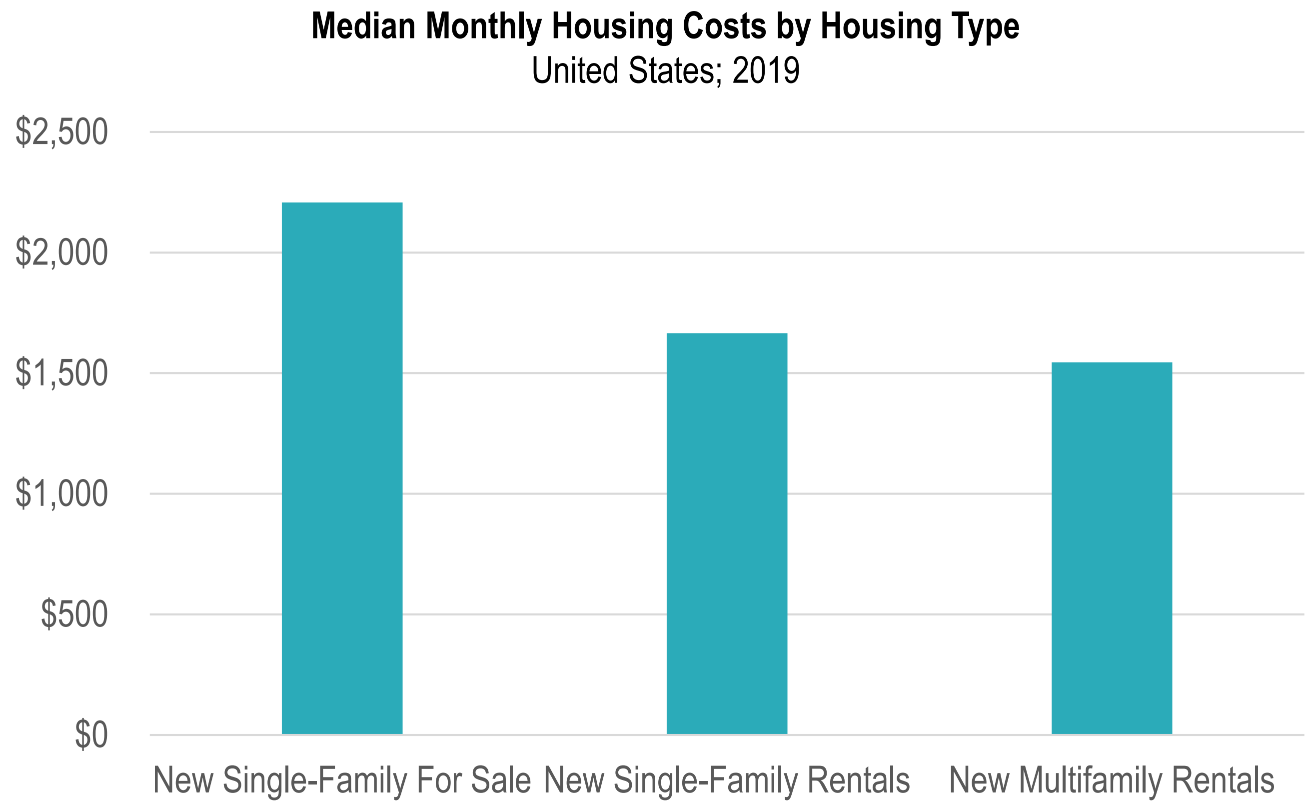
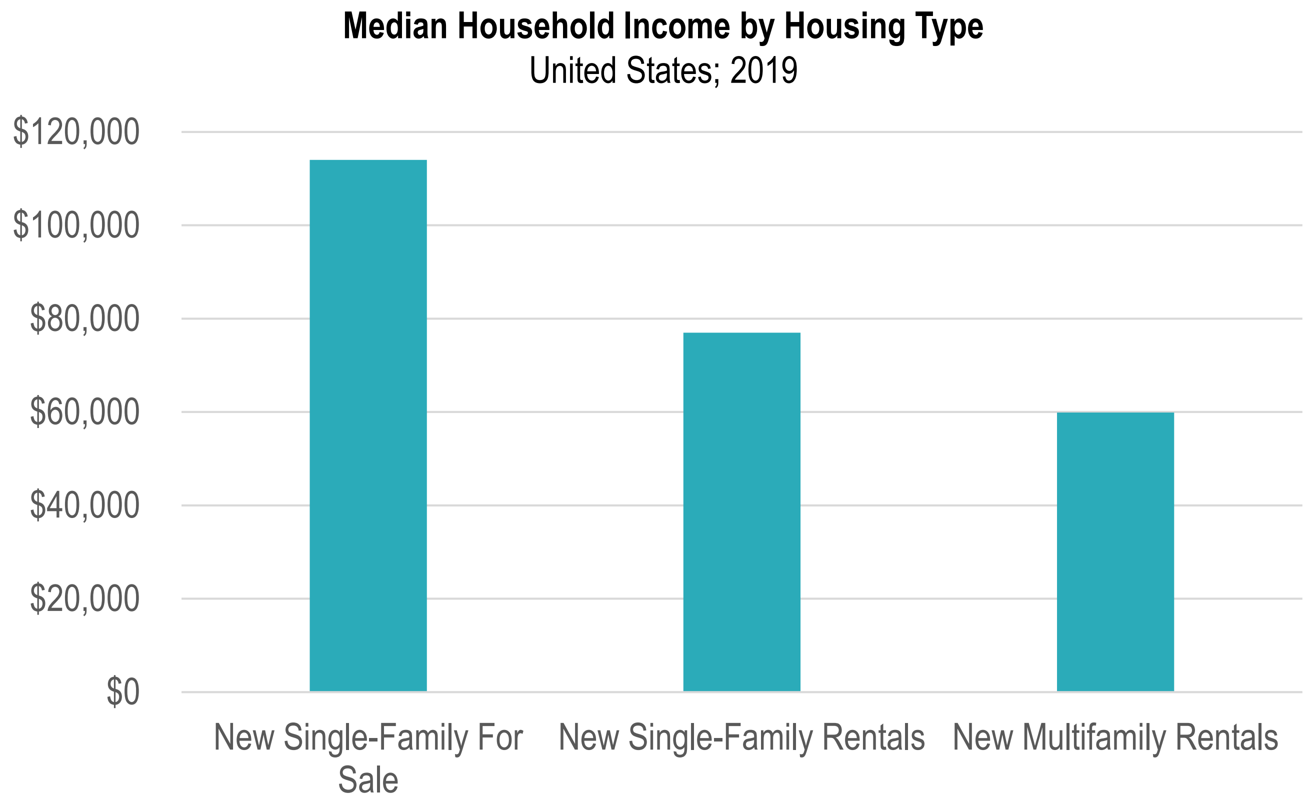
Source: American Community Survey; RCLCO

INCOME AND COST COMPARISON

- The median single-family homeowner in the US with a mortgage spends around $2,200 per month on their housing
- The median single-family renter spends $1,660 per month on rent and utilities
- The median household income for new single-family homeowners is $114,000, over 48% higher than the median income for single-family renters - $77,000.
- The modest costs of single-family rentals means they are often occupied by younger households than owner-occupied homes.





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Source: U.S. Census Bureau; American Community Survey; Joint Center for Housing Studies Harvard University; RCLCO

SUPPLY CONDITIONS

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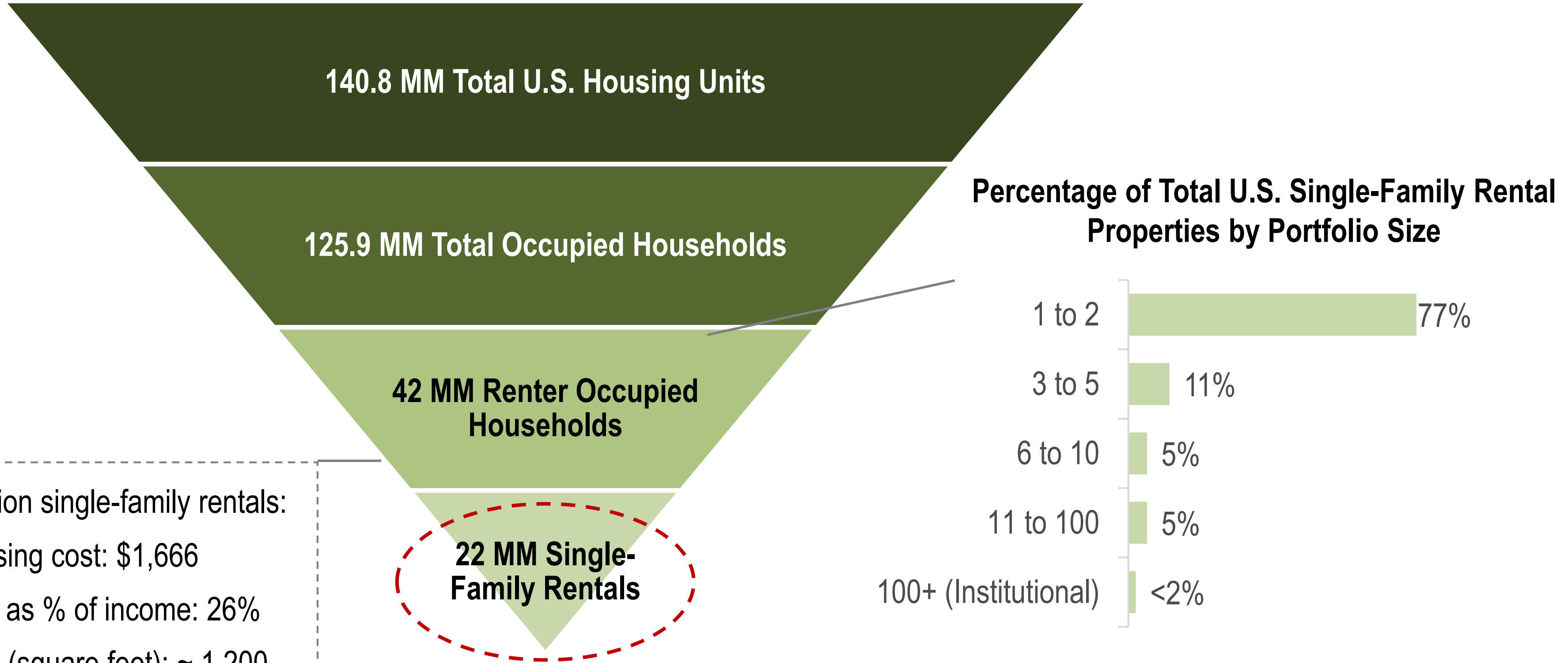
OPPORTUNITY SIZE AND SUPPLY GROWTH

Highly fragmented ownership, supply conditions not keeping pace with new HH formation

- 89% of single-family rentals are owned by small investors who own 1-5 single-family rental homes, presenting a market consolidation opportunity for investors and operators.
- Over the past cycle (2009-2019) housing starts have lagged behind new household formation, single-family housing deliveries have dropped to less than half of their historical levels, and overall starts have not been sufficient to meet the pent-up demand caused by demographic growth
- Dropping foreclosure rates since 2010 result in fewer homes converting to the single-family rental market



Key metrics of the over 22 million single-family rentals:

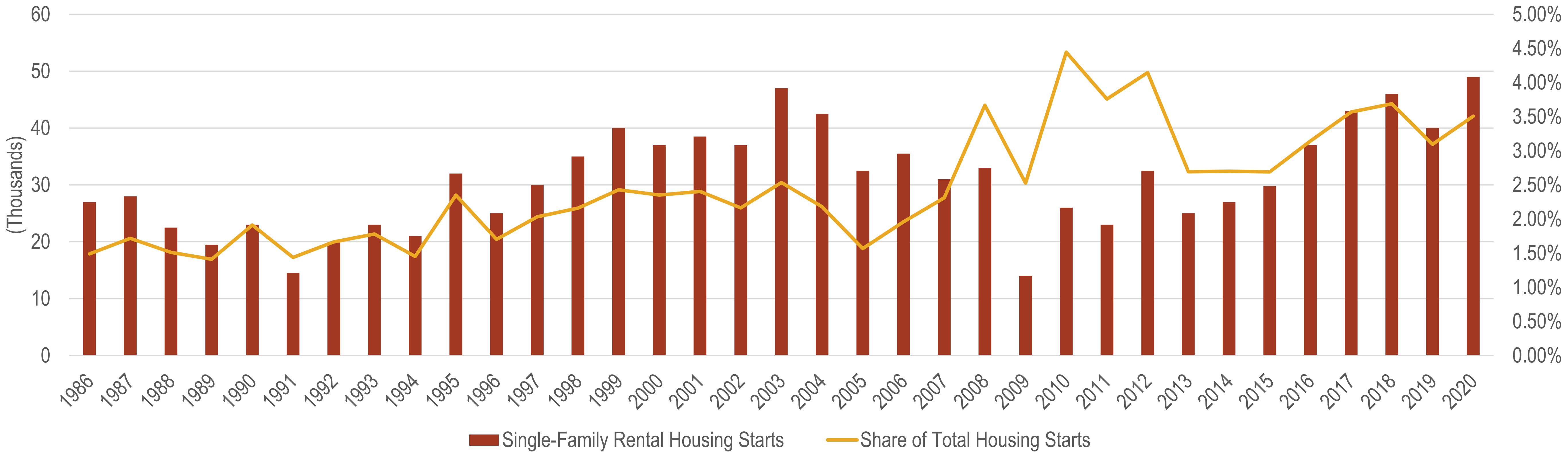
- Median monthly housing cost: $1,666
- Median housing cost as % of income: 26%
- Median size of home (square feet): ~ 1,200

Source: U.S. Census Bureau; American Community Survey; Joint Center for Housing Studies Harvard University; CBRE; RCLCO

SINGLE-FAMILY RENTAL SUPPLY GROWTH

- The delivery of single-family rental units has steadily decreased over the last decade.
- In 2020 there were an estimated 49,000 single-family rental starts, up greatly from the all time low in 2009 of only 14,000 starts.
- However, single-family rentals have yet to be more than 5% of total housing construction; despite the fact that single-family rentals have the ability to provide housing at modest costs that are generally difficult to serve with new construction.

Single-Family Rental Housing Starts
United States; 1986-2020



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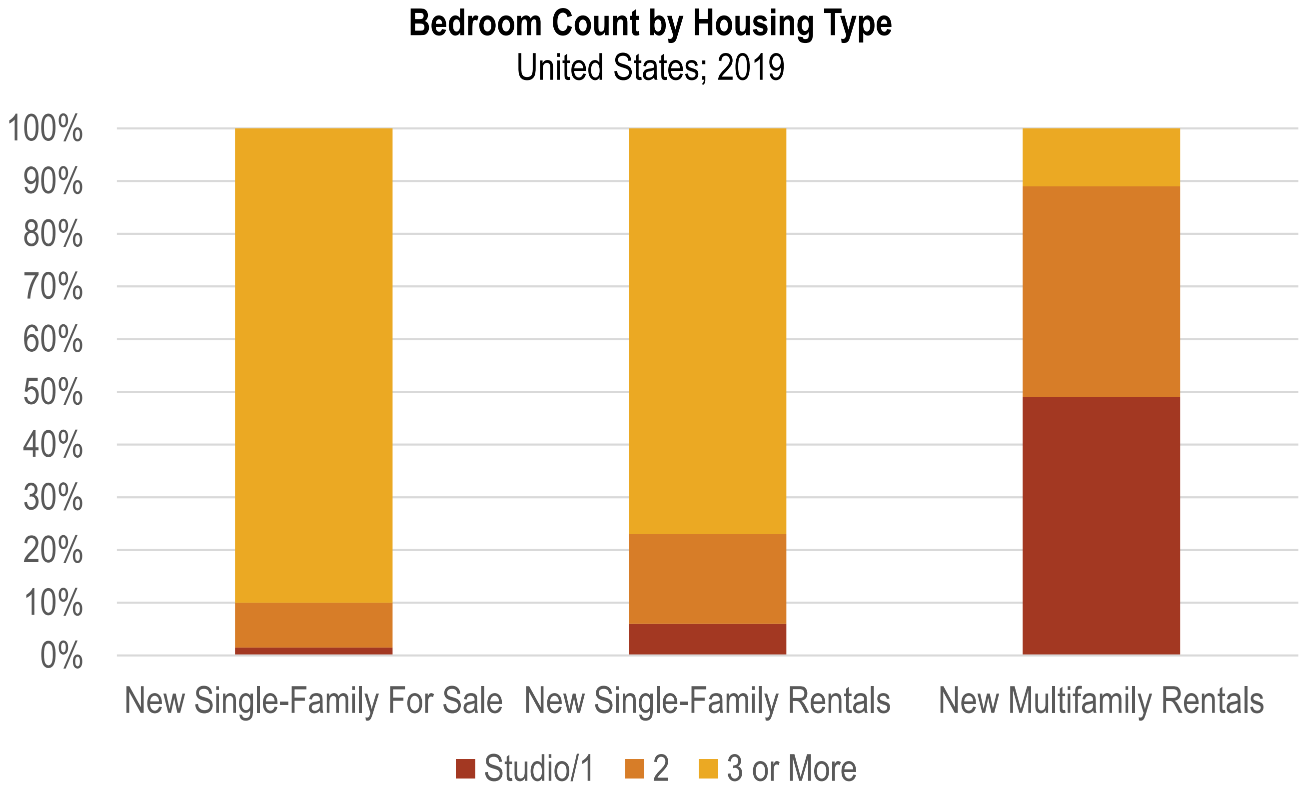
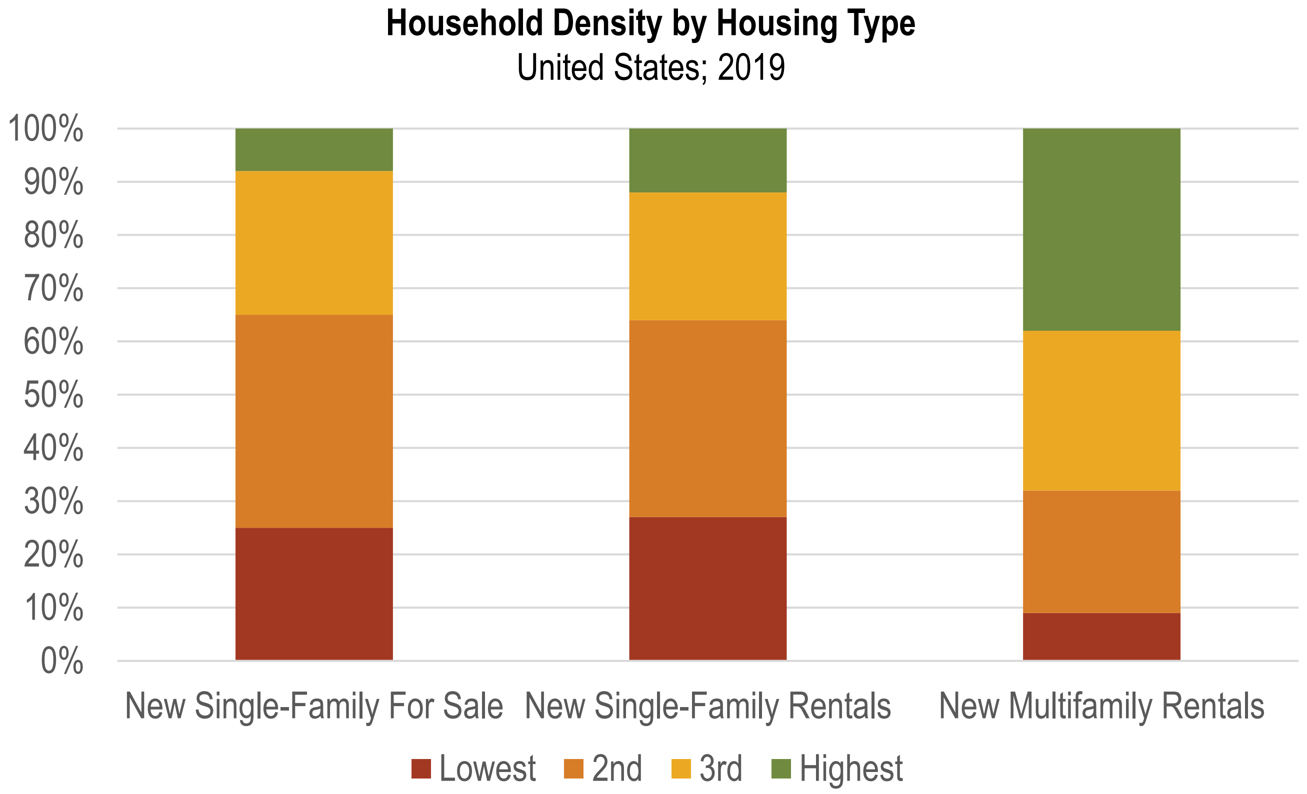
Source: U.S. Census Bureau; American Community Survey; Joint Center for Housing Studies Harvard University; RCLCO

CHARACTERISTICS OF SFR HOUSING STOCK

- Single-family rental units are most likely to attract young, modest-income households with children
  - As such, 77% of new single-family rentals offer three or more bedrooms
- New single-family rentals are predominantly built in low- and moderate-density areas, such as suburban communities
- In 2020, 59% of new single-family rental tenants were relocating from urban areas.
- Unsurprisingly, most single-family rentals mirror single-family homes built-for-sale, in terms of size, location, and the types of households they attract.





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Source: National Rental Home Council; U.S. Census Bureau; American Community Survey; Joint Center for Housing Studies Harvard University; RCLCO

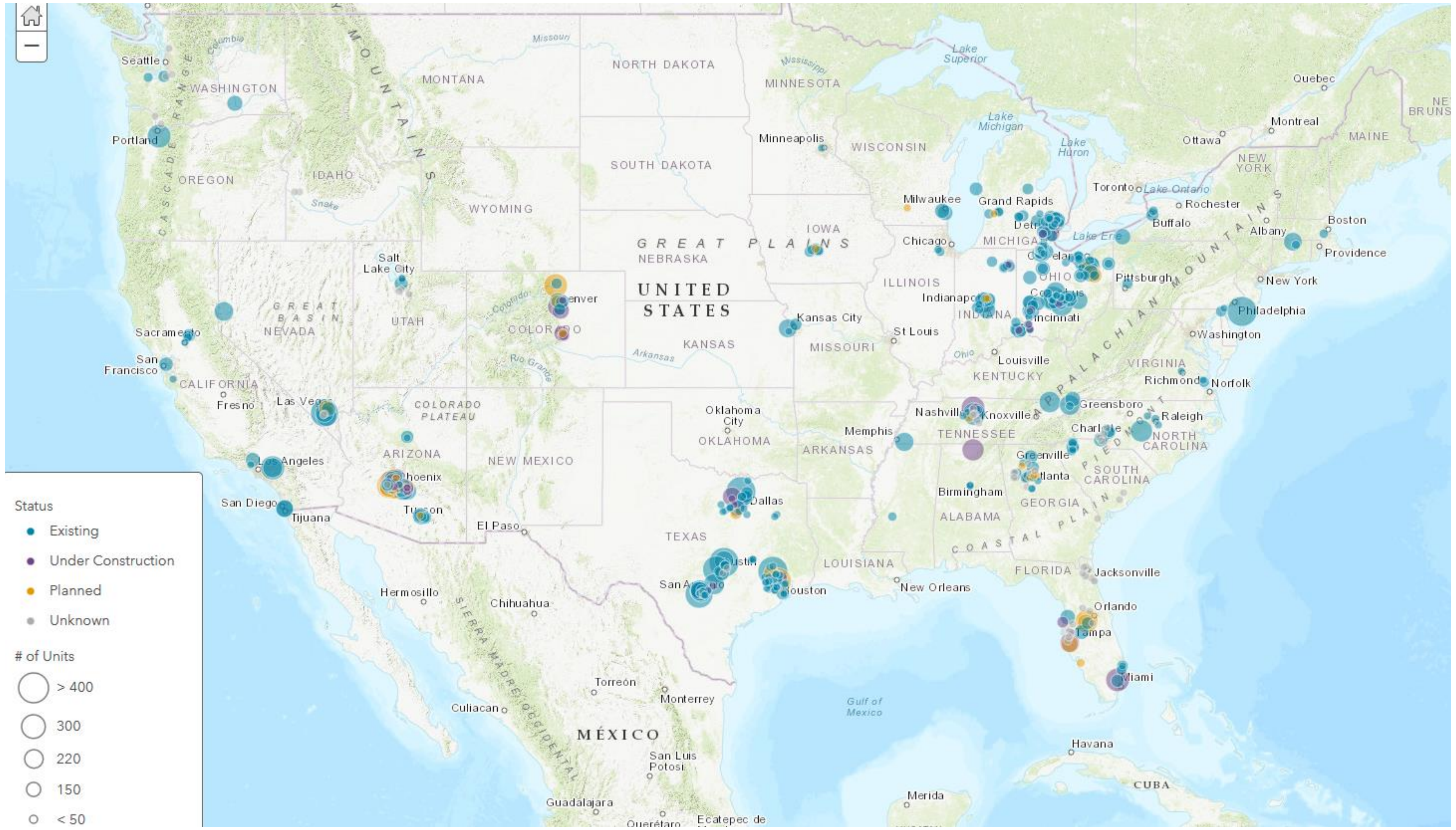
CONVERSIONS VS BFR COMMUNITIES

	INSTITUTIONAL SFR CONVERSIONS	BUILD TO RENT (SCATTERED SITE AND COMMUNITIES)
Competitive Players	Invitation Homes, American Homes 4 Rent, Tricon, Progress Residential	Community Developers: Tricon, NexMetro, Christopher Todd, BB Living, Bungalows, AHV Communities, American Homes 4 Rent, Redwood Living
Locations	National	Most active in Sun Belt cities but expanding
Operational Strategy	Typically in-house professional management located in the market but is not located on-site	On-site professional management allows for quicker response and superior support to residents
Est. Market Penetration	<2% of SFR owned by institutional players	2.5-5% of new SF homes since 2000
Target Segmentation	Family-based residents; Average ~3 year stay	Higher concentration of singles and couples in addition to families Average 1-2 year stay
Typical Unit / Size	3-4 Bedrooms 1,200 – 1,400 SF	1-3 Bedrooms 900 SF
Pictures	  	  

Source: Company Websites; Axiometrics; RCLCO

BFR SUPPLY

RCLCO database includes over 50,000 units within BFR *communities* (not including scattered site BFR product) – less than 1% of all SFR in the U.S.

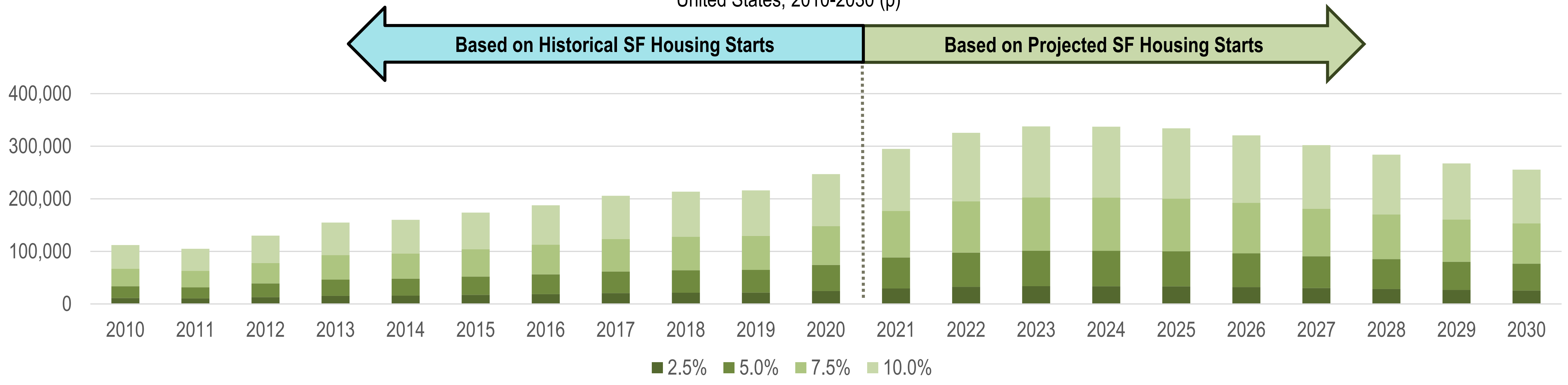


Note: Database in progress and continually updated as we find additional communities. Most missing communities are likely by one-off developers.

PURPOSE-BUILT SFR SUPPLY

- Since 2010, the share of BFR homes of all newly constructed homes is estimated at closer to 5% and expected to grow in the near to long term.
- Looking forward, Moody's Analytics expects single-family housing permitting to increase due to the relative undersupply of the market over this cycle. Additionally, RCLCO expects that a larger share of the single-family housing stock will be BFR.
- Currently, an estimated 5% of the new single-family housing stock is BFR, but looking forward, RCLCO expects this number to increase towards 7.5%. This change would increase the number of purpose-built rentals from roughly 50,000 per year to between 100,000 and 150,000 annually.

Annual SFR Supply Additions by Change in % of SFD Purpose-Built as SFR
United States; 2010-2030 (p)



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Source: Moody's; Census Bureau; Joint Center for Housing Harvard University; RCLCO

BFR PRODUCT TYPES

In most metropolitan areas, there is an opportunity to deliver a variety of product types, heavily dependent upon submarket and customer segmentation

Product Type	Visual	General Pricing	Neighborhood Location	Development Strategy	Key Examples & Geographic Focus
Suburban SFD		Discount to garden apartments, varies by unit size	Greenfield Lifestyle Suburb Greenfield Value Suburb	Provide traditional single family product in outlying suburbs or in MPCs. located in areas with good school districts, proximate to other single family housing.	**AHV Communities** Sun Belt Markets
Suburban SFA		Varies, but typically slight premium (5% to 10%) over garden apartments	Greenfield Lifestyle Suburb Middle-Income Suburb	Provide smaller, lower-priced single family product in outlying suburbs or in MPCs.	**BB Living** Sun Belt Markets
Detached Multifamily		Significant premium (20%+) over garden apartments	Greenfield Lifestyle Suburb Middle-Income Suburb	Alternative to multifamily apartments, providing additional privacy and space at a similar price point	**NexMetro, Christopher Todd, Bungalows** Sun Belt Markets
Urban/Suburban Infill SFA or Small-Lot SFD		Varies, but typically slight premium (5% to 10%) over garden apartments	Stable Urban Neighborhood Stable Suburb	Located in in-town locations just outside of the urban core offering high-quality product for lifestyle renters	**RedPeak Platt Park Townhomes** National
Urban Rowhome/SFA		Varies significantly by location	Emerging Economic Center High End Urban & Suburban	Located in urban core locations, likely in markets where high-density construction isn't feasible	National

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Source: Google Images; RCLCO

APPEAL OF BFR PRODUCT

BFR appeals to a wide variety of households, from existing single-family renters, multifamily renters, and existing or prospective homeowners

Multifamily Renters

- More Space
- Potential for Private Outdoor Space and Attached Garage
- Increased Privacy
- Neighborhood Living

Single-Family Renters

- Amenities
- New Construction

Existing and Prospective Homeowners

- Ease of Renting
- Increased Flexibility of Renting

Source: RCLCO; CBRE

OPPORTUNITIES & CHALLENGES

INVESTOR OPPORTUNITIES AND CHALLENGES

Though compelling, BFR/SFR have unique challenges in the current market

Opportunities

- High Yields possible due to attractive demographic shifts, increasing familiarity with the product type, shifts in employment preferences, and elevated for-sale costs
- Limited new supply in the BFR space due to lack of new construction, the reallocation of SFRs into the for-sale market due to rising home prices, and SFR/BFR being cyclically resistant through Covid-19
- Technology is creating improving SFR acquisition as well as improving SFR/BFR management increasing the efficiency of acquisitions, marketing and management in the sector
- Strong rent and revenue growth, low vacancies and turnover rates, and high demand have provided strong returns for existing investors/operators and are attracting more capital into the sector

Challenges

- Development
  - Still a new product type, lack of certainty on best product types and limited developers/operators with robust track records
  - Increasing competition: Capital racing to sector given performance, competition with builders for land
  - Rising costs of land, labor, and materials; uncertainty over future operating and capital expenditures
- Acquisition
  - Scale: challenging to acquire because limited supply
  - Increasing competition: capital flocking to the asset class
  - Social and Political Criticism: Housing affordability concerns present social and regulatory risks
  - Rising home prices

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Source: RCLCO; CBRE

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

This is particularly the case in light of recent developments that have occurred in Q1 2020, including fears of disruption due to the novel coronavirus, a price war that has precipitated a sharp drop in global oil prices, and concern over the level of corporate debt in the U.S. that could become a problem in a slowing economy. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

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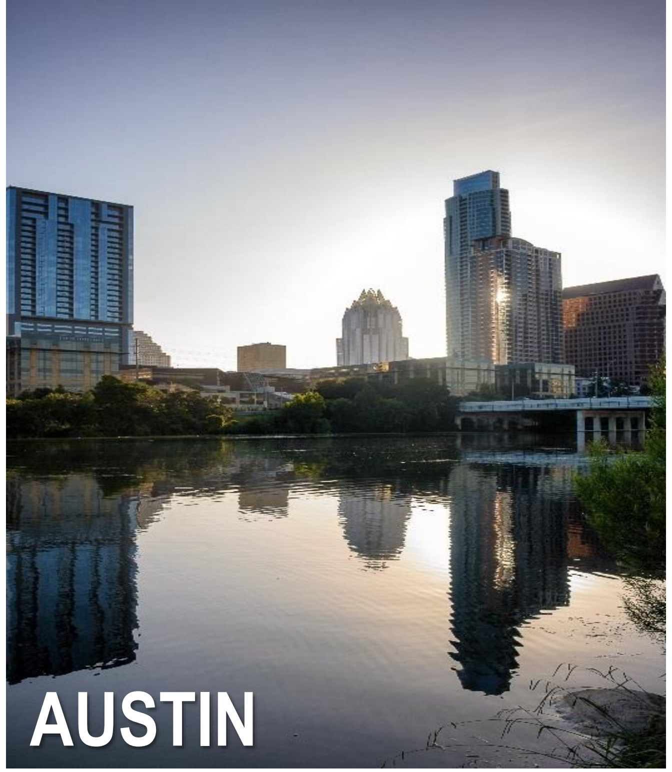
GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.



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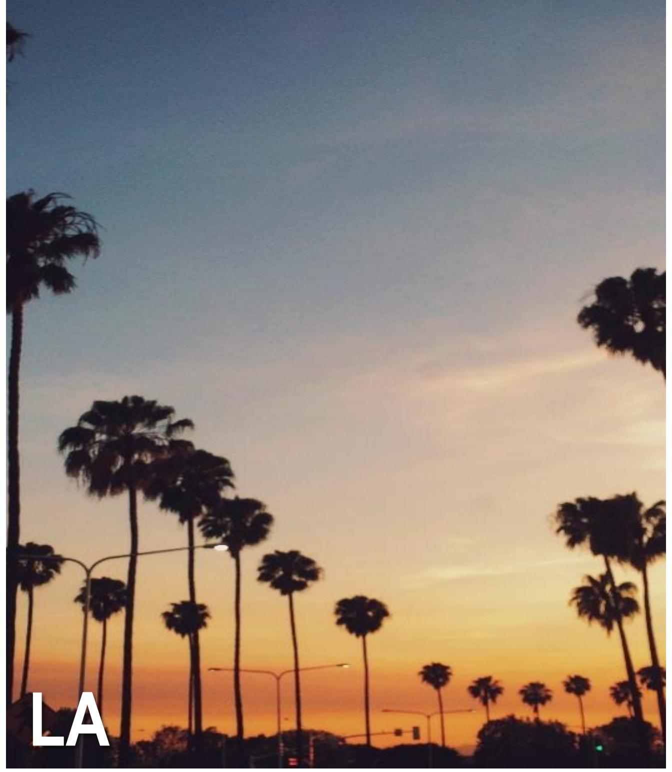

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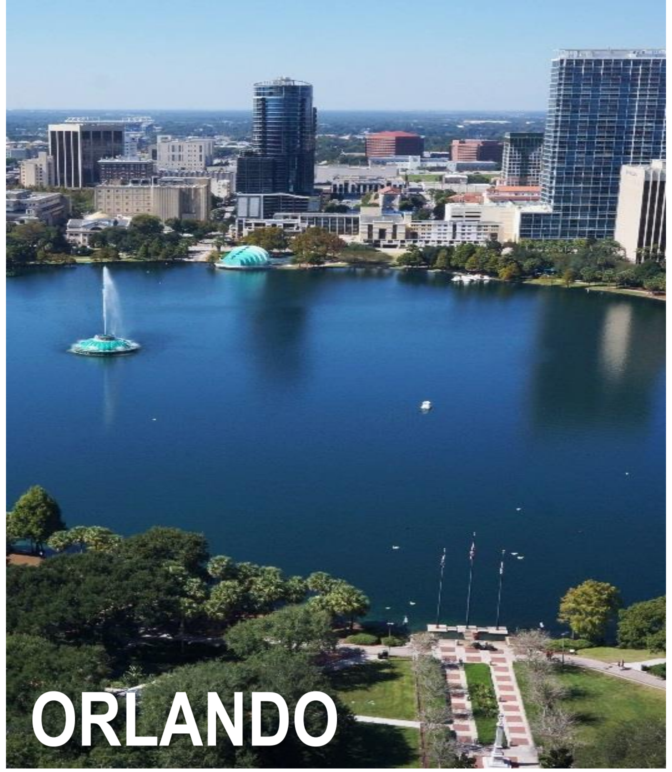

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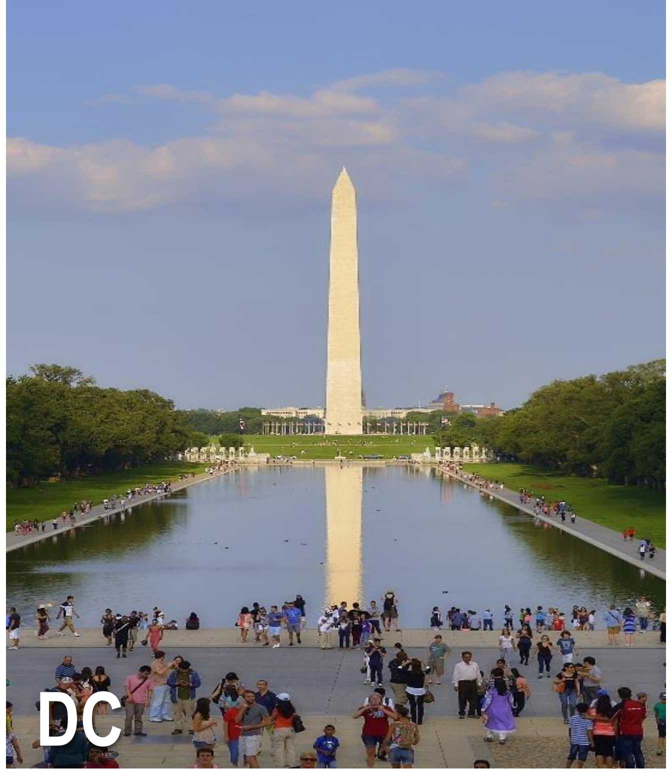

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