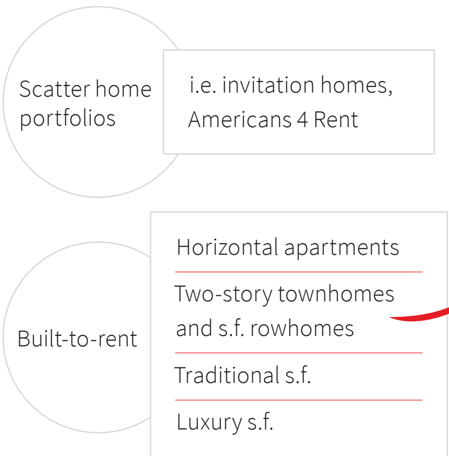
JLL

Single-Family Rental

Whitepaper

Single-Family Rental (SFR) Sector's Spectrum of Property Types

The booming SFR sector spans various forms of housing options from scatter home portfolios, where we see the highest participation from public REITs, to built-to-rent (BTR) spaces, which are currently capturing significant institutional investment dollars. Shortages in existing supply, strong SFR demand trends and investors looking to quickly expand their exposure to the SFR sector have driven institutional interest in the BTR space.



BTR Types

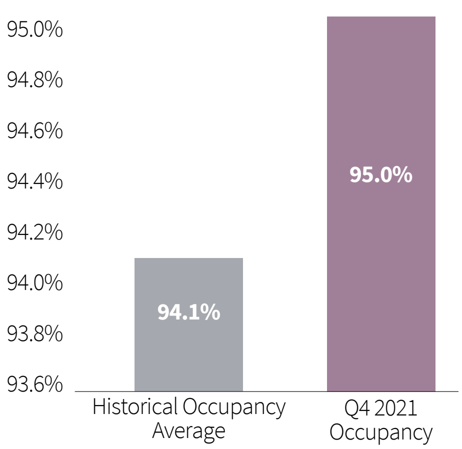
Product type	Product description	Typical home size range		Typical density
Horizontal apartments	Small single-family detached and attached homes	650 s.f. 1 bd/1 ba	1,400 s.f. 3 bd/2 ba	12 dwelling units/acre
Two-story townhomes & single-family rowhomes	Homes in 2-7 unit building configurations	1,300 s.f. 2 bd/2 ba	1,750 s.f. 4 bd/2.5 ba	10 dwelling units/acre
Traditional single-family	Detached homes on traditional lots	1,400 s.f. 3 bd/2 ba	2,000 s.f. 4 bd/3 ba	8 dwelling units/acre
Luxury single-family	Detached and attached homes on individual lots	2,000 s.f. 3 bd/2 ba	2,800 s.f. 4 bd/3.5 ba	6 dwelling units/acre

Robust Fundamentals Push SFR Sector to Center Stage

Current housing market trends have spurred tremendous growth across the SFR market despite broader macroeconomic concerns. Following the onset of COVID-19, renter preferences shifted to larger, more spacious accommodations, making single-family homes the perfect housing option. Unlike other living sectors, the SFR space has benefitted from less tenant exposure to income bands hit hardest by pandemic job losses. Additionally, SFR occupiers are now more likely than ever to remain renters given the recent spike in mortgage rates to approximately 5%. According to John Burns Real Estate Consulting research (John Burns), at a national level, owning an entry-level home is now $419 more expensive on a monthly basis than renting the same home, the widest gap since 2007. All in all, SFR landlords have been able to drive material gains in occupancy by retaining existing tenants and attracting a wave of new movers since the pandemic began. In Q4 2021, occupancy across the SFR space reached its highest point in more than 20 years and surpassed the historical average of 94.1%. Similarly, across the SFR product, John Burns reported an average leased rate of nearly 98% in January 2022. With home prices continuing to rise and additional interest rate hikes expected throughout the year, demand for SFR homes will remain high as purchasing a home becomes more cost prohibitive for would-be home buyers.

The surge in demand for SFR homes coupled with a lack of adequate supply resulted in an increase in SFR home rents of 5.5% in Q4 2021 relative to a year prior, according to John Burns Single Family Rent Index. This pace of growth is not expected to ease, with John Burns predicting SFR rent growth of 5.0% and 4.0% in 2022 and 2023, respectively. With inflationary growth becoming a real concern for many investors, the SFR sector represents a defensive investment opportunity in today's market. Moreover, the sector's robust fundamentals and positive outlook have captured the attention of institutional investors eagerly searching for yields.

U.S. Single-Family Rental Occupancy



Source: JLL Research, John Burns Real Estate Consulting, United States Census Bureau

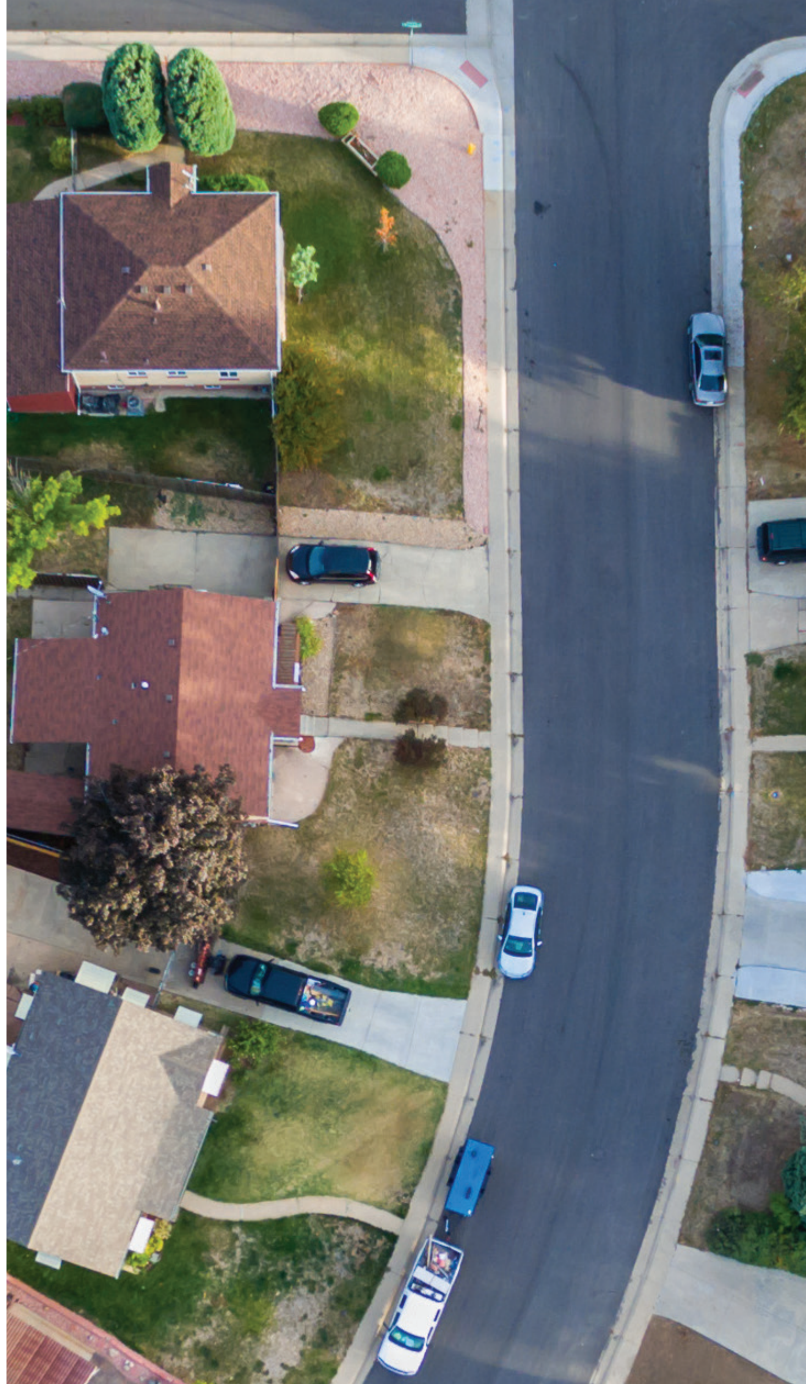
SFR supply on the rise but prevalence of sector varies drastically by market and state

Since 2005, SFR home supply has grown by 3.5 million, to 14.8 million total homes on a national level, representing 10.4% of total housing units. Per John Burns research, all top-20 SFR markets have observed an increase in SFR homes but the pace of growth has been uneven by market and by state. Denser states where space is scarcer and development yields are tougher to pencil in, including New York and Massachusetts, see only 12% to 15% of their total rental housing stock as SFR homes. Midwestern states observe some of the highest proportions of SFR homes, with penetration surpassing 47%. Meanwhile, a market such as Texas, which currently sits at 34% SFR penetration, stands to receive significant new investment in the space given its deep, growing housing market. This trend would align Texas' SFR penetration with the remaining Sun Belt markets, which observe SFR stock closer to 40% to 50% of overall rental stock.

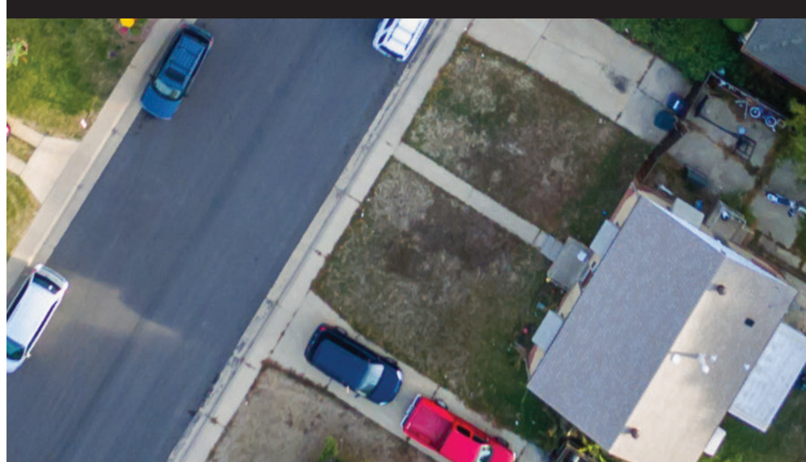
At the market level, key indicators of SFR success, include proximity to employment hubs, quality of schools, and the perceived safeness of the city. Riverside-San Bernardino, a market that benefits from a strong logistics presence and plentiful job opportunities, has the largest share of SFR homes as a proportion of all rental supply. SFR homes make-up nearly 50% of all rental units. In Atlanta, the market share of SFR homes has grown at the highest rate since 2006, with an increase of 9%. Recent shifts in renter preferences to larger living spaces in less dense locations following-COVID-19 will only continue to drive SFR supply in the aforementioned markets. Moreover, the current flurry of capital being poured into the BTR space by institutional investors will translate to increasing BTR deliveries over the next five years, with the greatest concentration of growth expected across the Sun Belt.

SFR has posted 11 consecutive years of gross yield compression

In Q1 2022, SFR gross yields equaled 6.4%, representing 11 consecutive years of compression. This phenomenon has been supported by rapid home value appreciation coupled with strong rental growth. The sector is poised to see strong cap rate fundamentals versus other property sectors as rent growth and occupancy remain strong due to favorable supply/demand imbalance.



In **Riverside-San Bernardino,** nearly **50%** of rental stock is SFR homes



Institutional capital formation targeting single-family rentals is intensifying

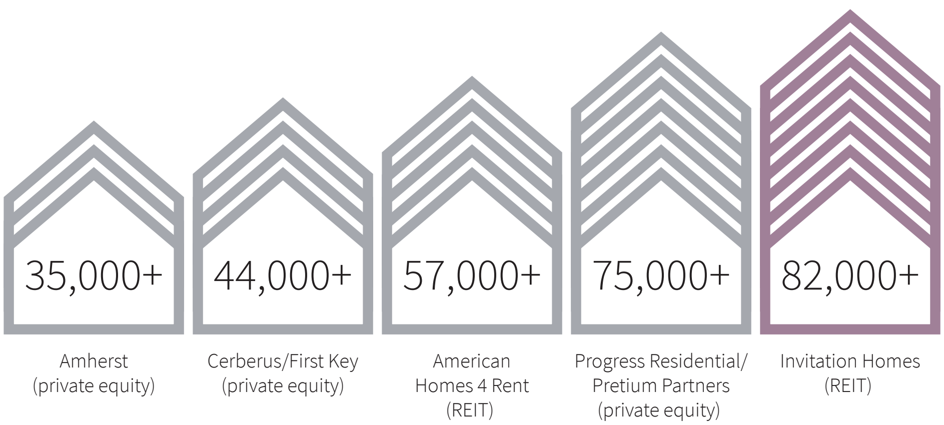
While the overwhelming majority of SFR homes are owned by mom-and-pop investors, there is growing evidence of institutional buyers entering the space (3-4% of SFR stock is owned by institutional investors). The performance of SFR REITs has been a motivating factor in driving greater institutional participation across the space. In fact, SFR REITS are one of the best performing property sectors since their emergence in the mid-2010s, outperforming the REIT index for three consecutive years entering 2022.

As such, investors now entering the space are paying a premium on SFR portfolios – either collections of traditional scattered SFR homes, and more recently BTR communities – relative to single-asset pricing. In Q1 2022, Magnolia Capital announced a joint venture with Principal Real Estate Investors to pursue opportunities to acquire, renovate and operate SFR homes. The venture's goal is to acquire 1,000+ homes per year. Monroe Capital, a Chicago-headquartered boutique asset manager with approximately $13 billion under management, committed $250 million in debt and equity capital to invest through Second Avenue. Second Avenue builds and manages single-family rental portfolios for institutional investors who wish to take a more passive role in SFR investing.

The Blackstone Group's acquisition of Home Partners of America, which transacted at an estimated mid-3% nominal cap rate, represents the largest data point to date. In addition, Brookfield Asset Management raised $200 million, including some of its own capital, for a vehicle named Brookfield Single-Family Rental that will acquire and renovate homes.

The convergence of several trends including, SFR product viewed as a hedge against rising inflation, expectations for the sector to observe sustained rent growth supported by high occupancy rates, and investors' need for yield will result in greater institutional investor capital placement across the sector. More institutional capital investment will help increase the supply of SFR homes, particularly in the BTR market as these firms look to expand their exposure across the space while minimizing lease-up risk. The broader institutionalization of the SFR sector coupled with maturation of the BTR segment will propel the SFR space to new heights, with plentiful opportunities for investment.

Top 5 institutional SFR owner-managers by number of properties



Representative Institutional SFR Activity in 2022

Date	Capital Provider	Deal Partner	Deal Value
Mar 22	Beacon Ridge Capital Management	Partnership w/ global institutional investor	$700M
Mar 22	SoftBank Investment Advisors / Roofstock	Equity Financing	$240M
Mar 22	Invitation Homes / Rockpoint Group	Joint Venture	$300M
Jan 22	The Promise Homes Company	Debt Facility	$200M
Jan 22	Pretium / Onyx East	Joint Venture	$600M
Jan 22	Home Partners of America / Blackstone	Choice Lease Program to Reduce Rents	$1B

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