Single-Family Build-to-Rent Poised to Thrive in the Next Cycle

Northmarq

SPECIAL REPORT

NOV 2022

COMMERCIAL REAL ESTATE

Debt & Equity | Investment Sales | Loan Servicing

INTRODUCTION

Build-to-rent overview

AS 2022 COMES TO A CLOSE, the economy and real estate markets face more uncertainty than at any point since the COVID-19 outbreak. Elevated demand and a persistent shortage of housing created a supply-demand imbalance across both the rental and for-sale housing markets for the past few years, driving rapid price and rent growth across the country. The financing climate contributed to the frenzy, with low mortgage rates supporting steep rises in for-sale housing prices and significant cap rate compression for investment real estate.

In recent months, conditions have begun to change course. Inflation has remained stubbornly elevated, prompting increases in interest rates that are being implemented specifically to curb demand. The result has been a rise in the cost of capital for consumers, investors, and businesses. To this point in the cycle, rising interest rates have had a cooling effect on real estate markets but have just begun to slow the rate of inflation.

One impact that was felt almost immediately after the Federal Reserve began raising short-term interest rates was a steep upward climb in residential mortgage rates, which went from all-time lows to 20-year highs in less than a year. These higher mortgage rates have already begun to restrict first-time home purchases.

Elevated mortgage rates will likely support renter demand in the coming quarters. Current single-family renters, who may have otherwise transitioned into homeownership in a low- or stable-interest rate environment, will likely remain in the renter pool in the current climate.

Developers are increasing activity levels to meet this accelerating demand for an alternative form of rental housing to traditional apartments. Deliveries of single-family build-to-rent (SF BTR) units are forecast to rise 20 percent in 2022, and construction starts are on pace to spike by 25 percent.

Many of the markets that are posting the greatest numbers of new projects are some of the highest-growth regions in the country, including: Phoenix, Dallas-Fort Worth, Austin, and Atlanta.

Deliveries of SF BTR units are forecast to rise 20 percent in 2022, and construction starts are on pace to spike by 25 percent.

There are certainly threats present in the larger economy that could spill over into the SF BTR market. Persistent inflation could ultimately restrict demand, and higher interest rates may limit investment that could otherwise spark the next wave of growth. Any significant contraction in the labor markets would almost certainly restrict new household formation and drag on demand for rental and for-sale housing. While uncertainty persists, single-family build-to-rent housing units—particularly those in high-growth parts of the country—are likely more insulated than most other sectors of the economy. Demand for these projects is rising, renters tend to remain in place for longer periods, and transitioning to home ownership is likely to remain challenging.

ECONOMIC OUTLOOK

What comes next, a soft landing, *or a recession?*

After beginning the year on firm footing, the national economy has struggled to gain and sustain momentum during the past few quarters. The primary drag on economic growth has been inflation— with prices rising across nearly every category of goods and services—with some of the most impactful increases being recorded in fuel, food, and housing costs.

The Federal Reserve is taking steps to fulfill its dual mandate of price stability and maximum employment with mixed results. Despite some recent layoffs at high-profile technology companies, the labor market continues to show signs of stability. The unemployment rate is low, total employment has surpassed the pre-COVID peak, and there are more job openings than people looking for work. These conditions have resulted in an environment where jobs are perceived as easy to get and wages are on the rise.

Inflation has proven to be another matter entirely. Consumer prices have been rising at annual paces of 5 percent or higher for more than a year. The rate of increase hit a 40-year high, topping 9 percent in June, and subsequent readings have ranged between 7.7 percent and 8.5 percent.

U.S. employment market
has fully recovered and surpassed pre-COVID peak *(millions)*

While the pace of price increases is forecast to cool, improvement is expected to be gradual, and elevated rates of inflation will likely persist at least for the next few months.

To this point in the cycle, the Fed's response has been to aggressively raise rates. The central bank has implemented rate hikes in each of its last six meetings, including four consecutive 75 basis point increases beginning in June.

One or two more rate hikes are expected through the remainder of this year and into 2023. Some forecasters are anticipating rate cuts at some point next year.

The rising interest rate environment has introduced greater uncertainty to the economy and to the housing markets. Costs of capital are clearly rising, and the more restrictive environment is acting as a drag on growth.

The Federal Reserve is taking steps to fulfill its dual mandate of price stability and maximum employment with mixed results.

Sources: Northmarq, Bureau of Labor Statistics

ECONOMIC OUTLOOK

continued

For housing markets, the combined forces of rising interest rates and slower economic growth are weighing on demand and pricing. New and existing home sales prices have begun to inch lower, and rental rates in most markets have leveled off. Still, rents are considerably higher than they were one year ago.

The greatest threat associated with the more restrictive policy is one where the economy enters into recession. GDP contracted in both the first and the second quarters of this year, before bouncing back in the latest reading. The pace of employment growth has slowed, but businesses are still adding workers.

Beginning in the second quarter, job growth averaged approximately 350,000 net new jobs per month, about 30 percent lower than the pace for the prior 18 months.

The Fed is trying to walk the fine line of causing the economy to slow without stalling. Nearly every economic indicator is showing signs of cooling. The concern is that the Fed's measures take time to carry over into the larger economy, and the cumulative impact of several consecutive rate increases may result in companies reducing employee headcounts as the economy slows and operating costs remain elevated.

Beginning in the second quarter, job growth averaged approximately 350,000 net new jobs per month, about 30 percent lower than the pace for the prior 18 months.

Inflation pressures linger
despite Fed actions
(CPI 12-month percent change)

The economy can likely absorb a slowing pace of growth. Job additions averaging about 100,000 positions per month through the end of this year and into 2023 would be sufficient to keep unemployment low and support demand for rental housing. If elevated labor expenses, high costs of capital, and a slowing economy restrict corporate profits, however, companies could trim workforces, increasing the likelihood of a recession in the economy as a whole.

Sources: Northmarq, Bureau of Labor Statistics

FOR-SALE HOUSING OVERVIEW

Mortgage rate spike slowing price appreciation, *but doing nothing to offset affordability challenges.*

Trends in the for-sale housing market impact demand for single-family build-to-rent units. Renters in SF BTR communities are generally older and more affluent than traditional apartment tenants. Further, the tenant pool consists of many "renters by choice" and aspiring homeowners.

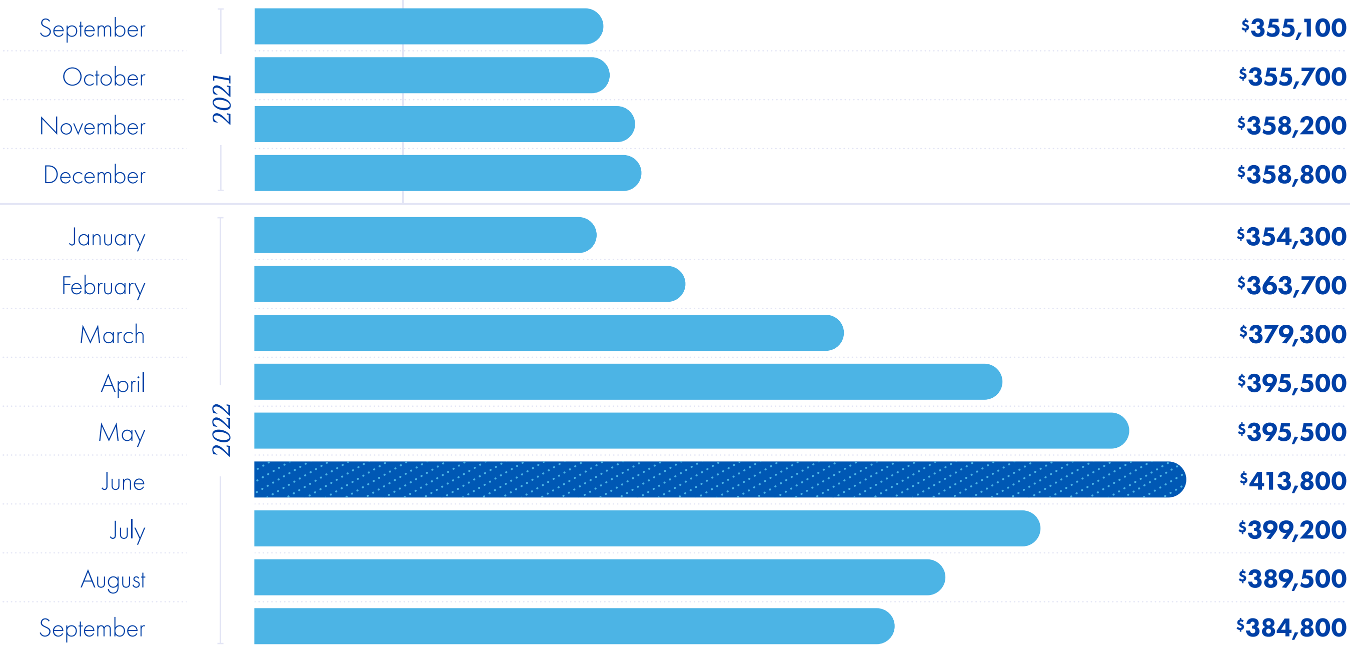
Recent trends in the for-sale housing market have done nothing to dampen demand for single-family rentals. Affordability in for-sale housing continues to present challenges for renters hoping to transition into home ownership. During the past few years, affordability has become a greater challenge due to rapid rises in home prices, particularly in the South and West regions, where single-family rentals are most common.

Thus far in 2022, transitioning from renting to owning has been severely restricted by the steep rise in mortgage rates. The average 30-year fixed-rate mortgage began the year around 3.1 percent and has trended higher in nearly every month.

In October, the rate topped 7 percent, reaching its highest level in approximately 20 years. With the average mortgage rate having doubled since the beginning of the year, there has been a dramatic decline in purchasing power, particularly for people looking to acquire first homes. On a $300,000 loan, an increase in mortgage rates from 3.5 percent to 7.0 percent results in a higher interest payment of $875 per month.

While rising mortgage rates have reduced purchasing power, sales prices have begun to decline following several years of gains. At the national level, the median price for existing single-family homes posted monthly increases through June of this year, but the trend began to reverse in July.

Housing prices
peaked in June



Sources: Northmarq, National Association of Realtors

$384,800

Median sales price
existing single-family home

8.4% **annual change**

Median sales price
existing single-family home

Sources: National Association of Realtors

Average 30-year fixed-rate
residential mortgage

3.11% *12.30.2021* → **7.08%** *11.10.2022*

Sources: Freddie Mac

Thus far in 2022, transitioning from renting to owning has been severely restricted by the steep rise in mortgage rates.

After topping $413,000 in June, the median price dipped 3.5 percent in July, followed by drops in both August and September. Despite the recent dip, the national median price is still up 8.4 percent year over year, and the rise in mortgage financing has more than offset the recent dip in pricing.

The continued rising cost of home ownership is expected to keep would-be buyers in the renter pool for longer periods, supporting demand for single-family rental housing. On the supply side, the slowing pace of new-home sales could create some opportunities for single-family rental operators to purchase blocks of completed homes that were originally intended to be sold to individual buyers when mortgage rates were lower. Additionally, SF BTR developers may be able to acquire lots from homebuilders scaling back operations.

DEVELOPMENT TRENDS U.S.

Activity gains momentum.

Construction starts in the single-family build-to-rent segment accelerated at a rapid rate during the first half of this year, a trend that is expected to continue through the remainder of 2022 and into the coming years. During the first half of 2022, starts totaled approximately 36,000 homes, more than doubling levels from the first half of 2021. By comparison, starts of single-family for-sale homes were down 4 percent during the same timeframe.

Activity levels have been particularly elevated in the most recent four quarters where data have been reported. Single-family build-to-rent starts averaged approximately 10,000 units per quarter from 2017 through the first half of last year. Beginning in the third quarter of 2021, starts rose to approximately 15,000 units per quarter, with levels topping 20,000 starts in the second quarter of this year, an all-time high.

Despite supply constraints and a tight labor market, the pace of deliveries has continued to accelerate. During the first half of this year, developers delivered approximately 31,000 single-family build-to-rent units, up from 23,000 units completed during the same period in 2021. This topped the previous high recorded in the second half of 2019, when the product type was concentrated in fewer markets across the country.

During the first half of this year, developers delivered approximately 31,000 single-family build-to-rent units, up from 23,000 units completed during the same period in 2021.

The pace of deliveries has remained elevated since the end of last year. Developers have completed approximately 16,000 single-family rental homes in each of the past three quarters.

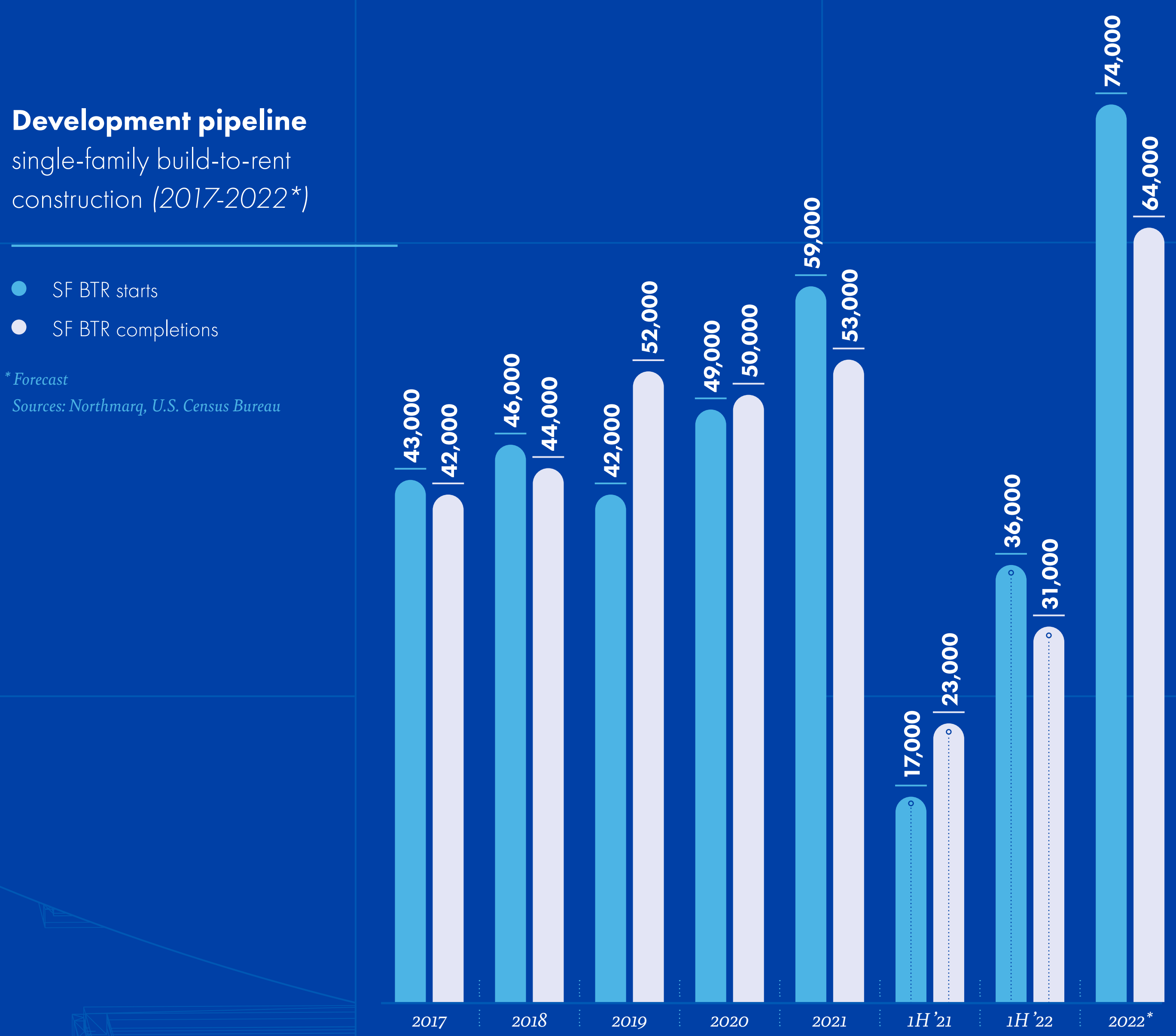
Looking ahead for the remainder of this year, construction starts are expected to remain elevated, fueled by ongoing renter demand for units, even with the economy showing signs of volatility and capital costs increasing. Developers are forecast to start 74,000 units in 2022, up from 59,000 units in 2021.

The number of units delivered this year is on pace to rise 21 percent to 64,000 units. With many homebuilders feeling the impact of rising mortgage rates on new home sales, delivering units for rent is expected to continue to become a larger segment of the overall single-family housing market.

Regional development trends are posting mixed results across the single-family rental market. While a larger number of units are working through the development pipeline across a greater number of markets, construction is becoming increasingly concentrated in one region: the South. Trends including rapid population migration, several strong regional economies, and available and affordable land for new development are fueling expansion of the single-family build-to-rent product type in the South region.

The number of units delivered this year is on pace to rise 21 percent to 64,000 units.

Development pipeline
single-family build-to-rent construction *(2017-2022*)*



** Forecast*
Sources: Northmarq, U.S. Census Bureau

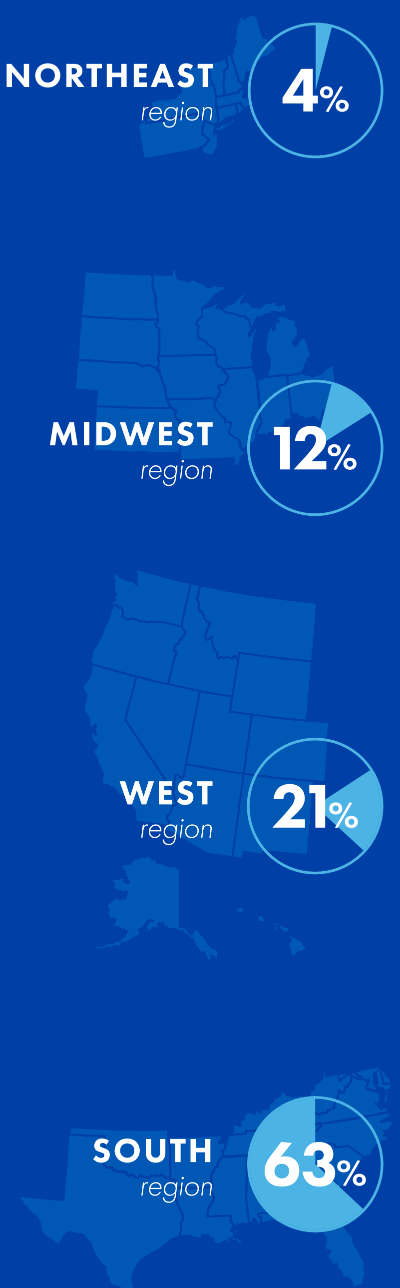
SINGLE-FAMILY BUILD-TO-RENT

Construction starts

During the first half of this year, construction starts of single-family rentals in the South region reached 23,000 units, more than doubling levels from the same period in 2021. Year to date, construction starts in the South have accounted for 63 percent of the national total, up from 61 percent in 2021 and considerably higher than the region's average share of 45 percent from 2017 to 2020.

Recent activity in the South region has been led by several new developments throughout Texas. Dallas-Fort Worth remains one of the top markets for employment growth and demand for all forms of housing, including single-family rentals. Austin's suburbs are a natural fit for single-family build-to-rent homes due to continued additions of high-wage jobs, as well as a rapid escalation in for-sale home prices and steep rent increases for traditional apartment properties.

While the West region is accounting for a smaller share of the national total of new development, activity is still on the rise. During the past 12 months, developers have broken ground on single-family build-to-rent communities totaling approximately 14,000 units across the West region, up 35 percent from average levels from 2017 through the first half of 2021. Phoenix—where the SF BTR product segment first gained significant market share—remains one of the top markets for construction starts.



Construction starts by region - 1H 2022
(single-family build-to-rent)

Sources: Northmarq, U.S. Census Bureau

SINGLE-FAMILY BUILD-TO-RENT

Construction deliveries

Top markets in the South for completions this year include the Texas markets, as well as projects in Jacksonville, Atlanta, and Nashville.

Approximately two out of every three single-family rental homes that were delivered during the first half of this year came online in the South region. This represents a significant shift from prior years. In 2021, for example, deliveries in the South accounted for 51 percent of the national total. Top markets in the South for completions this year include the Texas markets, as well as projects in Jacksonville, Atlanta, and Nashville.

During the first half, deliveries in the West region totaled 7,000 units, putting the region about 55 percent higher than the pace of deliveries established in recent years. In addition to Phoenix, which is the top market in the region, deliveries have been occurring in Las Vegas, as well as a few projects in California and Idaho.

After recording a fairly steady pace of new development in recent years, completions slowed in the first half of 2022 in the Midwest. Top markets for build-to-rent construction in the Midwest include Columbus and Indianapolis, with a handful of other markets expected to add new projects in the coming years.

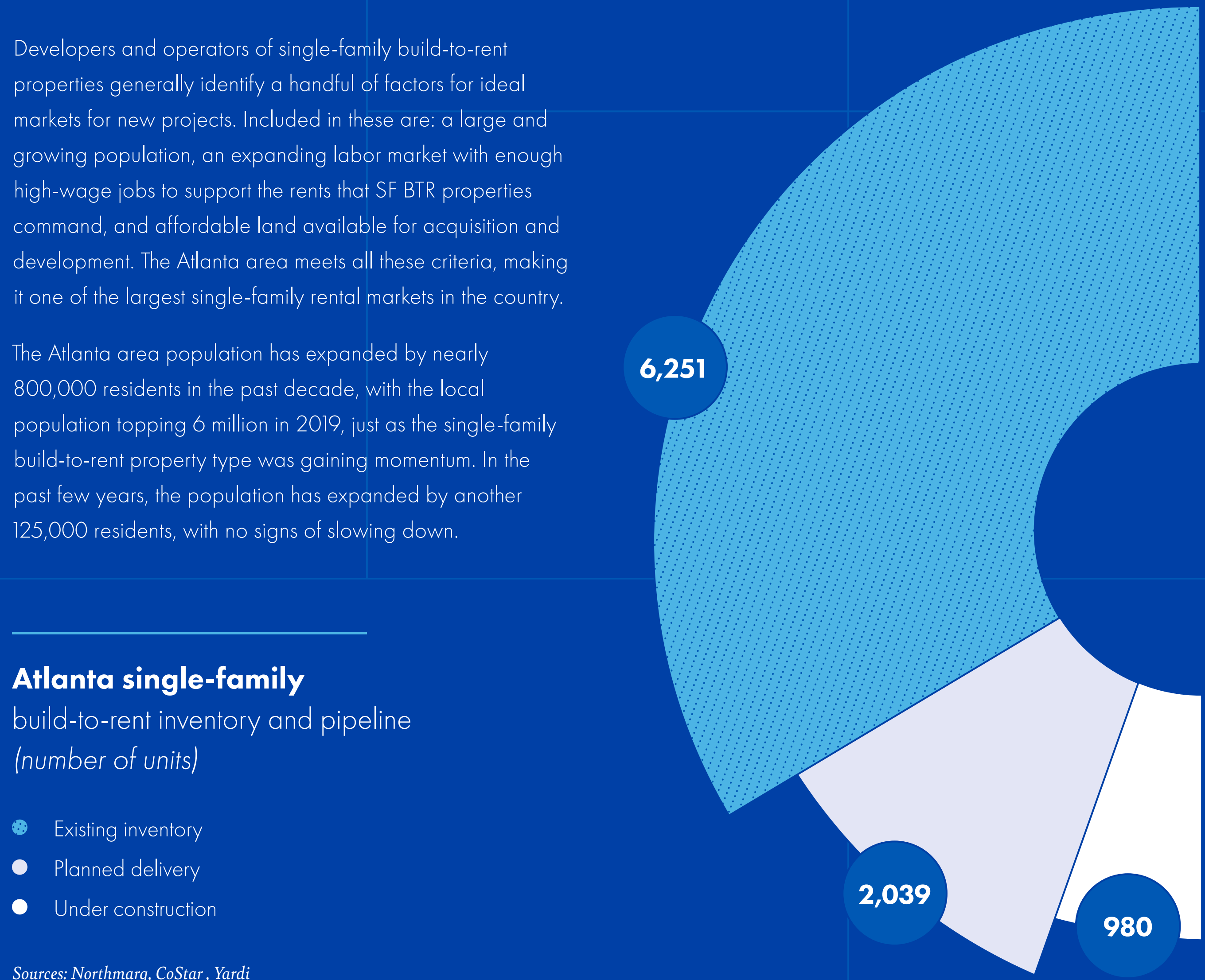
MARKET SPOTLIGHT

Atlanta

Developers and operators of single-family build-to-rent properties generally identify a handful of factors for ideal markets for new projects. Included in these are: a large and growing population, an expanding labor market with enough high-wage jobs to support the rents that SF BTR properties command, and affordable land available for acquisition and development. The Atlanta area meets all these criteria, making it one of the largest single-family rental markets in the country.

The Atlanta area population has expanded by nearly 800,000 residents in the past decade, with the local population topping 6 million in 2019, just as the single-family build-to-rent property type was gaining momentum. In the past few years, the population has expanded by another 125,000 residents, with no signs of slowing down.

Atlanta single-family
build-to-rent inventory and pipeline
(number of units)



Sources: Northmarq, CoStar , Yardi

The Atlanta area population has expanded by nearly 800,000 residents in the past decade, with the local population topping 6 million in 2019, just as the single-family build-to-rent property type was gaining momentum.

One factor driving population growth to the region is a very strong local labor market. Employment growth averaged approximately 2.75 percent annually in the years leading into the COVID pandemic. The region has recorded a full recovery, with current employment levels up more than 105,000 net jobs—or about 4 percent—from the pre-COVID peak.

In recent years, a diverse mix of companies including Cisco, Google, Microsoft, Capital One, and dozens more have announced plans to bring thousands of high-wage jobs to the Atlanta market.

The single-family rental market in Atlanta first began to gain traction in the period following the Great Recession, when several of the largest SFR companies acquired existing homes in the area out of foreclosure. That trend has now given way to ground-up development of new SF BTR communities throughout the Atlanta region.

There are currently more than 40 existing single-family build-to-rent communities in the Atlanta metro area totaling approximately 6,250 units. Developers have been active in recent years, completing nearly 3,700 units since the beginning of 2021.

Atlanta-based ResiBuilt has been one of the most active developers in the Atlanta area. The company has completed about 10 properties totaling approximately 750 units. ResiBuilt and Haven Realty Capital executed one of the largest transactions in the SF BTR space in 2020 with a six-property portfolio sale totaling more than $130 million.

In recent years, companies including Cisco, Google, Microsoft, and Capital One have announced plans to bring thousands of high-wage jobs to the Atlanta market.

American Homes 4 Rent also has a significant presence in the market, with more than a dozen existing communities throughout the region totaling approximately 1,000 units. To this point, American Homes 4 Rent has pursued a strategy of developing projects to own and operate.

In addition to the projects that have already been delivered, the development pipeline includes nearly 1,000 units that are currently under construction and about a dozen planned developments totaling more than 2,000 units.

INVESTMENT SALES OVERVIEW

Prices rising as mix of SF BTR *options evolves.*

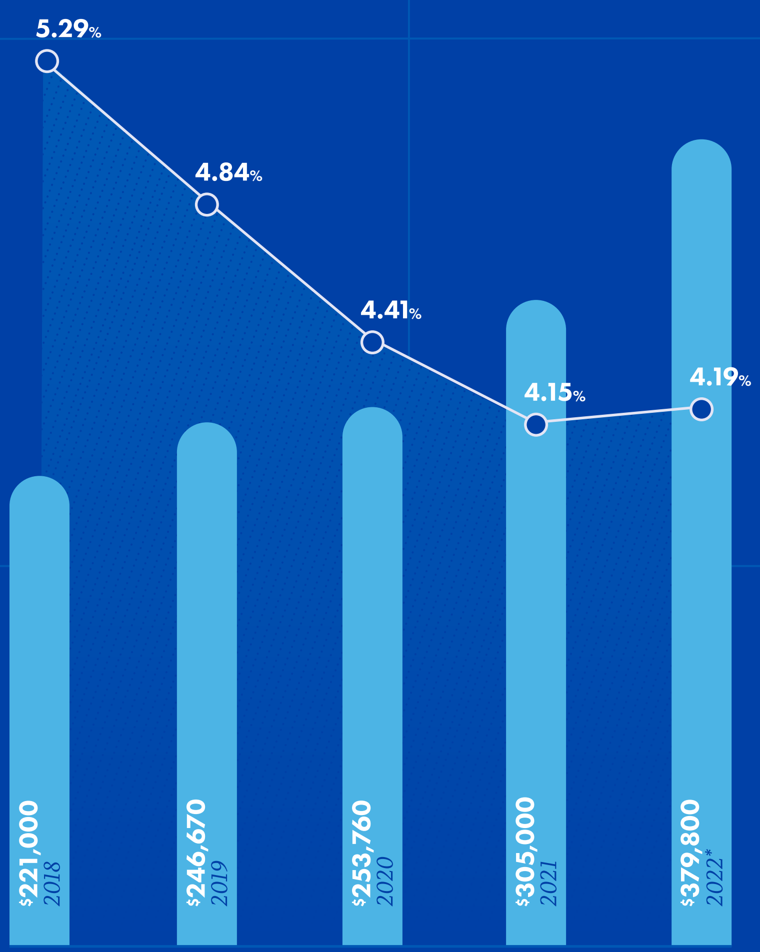
FUELED BY A WAVE OF EQUITY moving into the BTR space in 2021, investment activity for single-family build-to-rent properties peaked in the fourth quarter of last year. To this point in 2022, transaction levels have lagged last year's pace, but properties continue to trade. Through the third quarter, sales velocity is down 25 percent year over year. Even after accounting for the recent slowdown, more single-family build-to-rent communities have traded in the first nine months of 2022 than in any full year from 2017-2020.

Sales velocity has declined in each quarter of 2022, as economic uncertainty has lingered and borrowing costs have pushed higher. The number of properties that changed hands dropped by nearly 40 percent from the first quarter to the second quarter, before inching down nearly 15 percent in the third quarter. The slowing transaction activity is a reflection of the investor expectations gap that has emerged as interest rates have pushed higher.

The median price in single-family rental communities has spiked nearly 25 percent this year to approximately $380,000 per unit.

While overall deal flow has slowed to this point in 2022, the prevailing trend calls for heightened transaction activity in the coming years. The volume of properties that will be delivered, leased-up, and stabilized will present investment opportunities in dozens of high-growth markets across the country.

Prices have continued to trend higher to this point. The median price in single-family rental communities has spiked nearly 25 percent this year to approximately $380,000 per unit. This follows a per-unit price increase of approximately 20 percent in 2021. Prices have pushed higher at the top-end of the range. In recent months, several properties have traded in excess of $450,000 per unit.



Investment trends
single-family build-to-rent properties

Median price per unit
Average cap rate

** Year-to-date*
Sources: Northmarq, CoStar, Real Capital Analytics

Median price per square foot

single-family build-to-rent properties
(United States)

Some of the rise in per-unit prices is a result of an evolving mix of properties that are being developed in the build-to-rent category. Now that the build-to-rent business model has proven popular with renters and profitable to investors, developers are increasingly bringing larger properties to the market. The median price in sales year to date is $297 per square foot, after properties traded at approximately $250 per square foot from 2018-2021.

Cap rates have begun to trend higher in the build-to-rent space. Cap rates generally ranged between 4 percent and 4.5 percent for much of 2021 before compressing to the point where most transactions occurred with cap rates at 3.5 percent or lower in the first few months of this year. In the last two quarters, cap rates have generally averaged around 4.5 percent, although some properties are trading closer to 4.75 percent to 5 percent.

** Year-to-date*
Sources: Northmarq, CoStar, Real Capital Analytics

MARKET SPOTLIGHT

Las Vegas

The single-family build-to-rent market was just beginning to hit its stride across several high-growth markets in 2019 and 2020, and demand for rental housing options with more space and greater privacy intensified in the period immediately following COVID-19. An increase in the number of employees that transitioned into a work-from-home daily routine supported demand for single-family rentals.

This trend did not take shape across all markets, and the Las Vegas region was particularly impacted. The Las Vegas economy is more dependent on travel and tourism than nearly every other major market in the country, and the uncertainty that was present in the market two years ago restricted development of new single-family rental communities.

As the economy has reopened and leisure and convention traffic have rebounded, Las Vegas has made a robust recovery, and the strong growth being recorded in the local economy and the housing market is beginning to support a growing SF BTR market.

During the third quarter, total employment in Las Vegas surpassed its pre-COVID peak, putting the market well ahead of the original forecasts that called for a much slower recovery in local labor conditions. Year over year, employment in Las Vegas has expanded by 5 percent with the addition of more than 50,000 jobs.

Year over year, employment in Las Vegas has expanded by 5 percent with the addition of more than 50,000 jobs.

MARKET SPOTLIGHT LAS VEGAS

continued

The recovery in the Las Vegas economy is being fueled by a handful of factors. The first has been the end of the pandemic and the release of pent-up demand by millions of people who have resumed traveling. While total visitor volumes to Las Vegas have not returned to 2019 levels, hotel occupancies on weekends are stronger, suggesting personal travel has come back faster than business and convention travel.

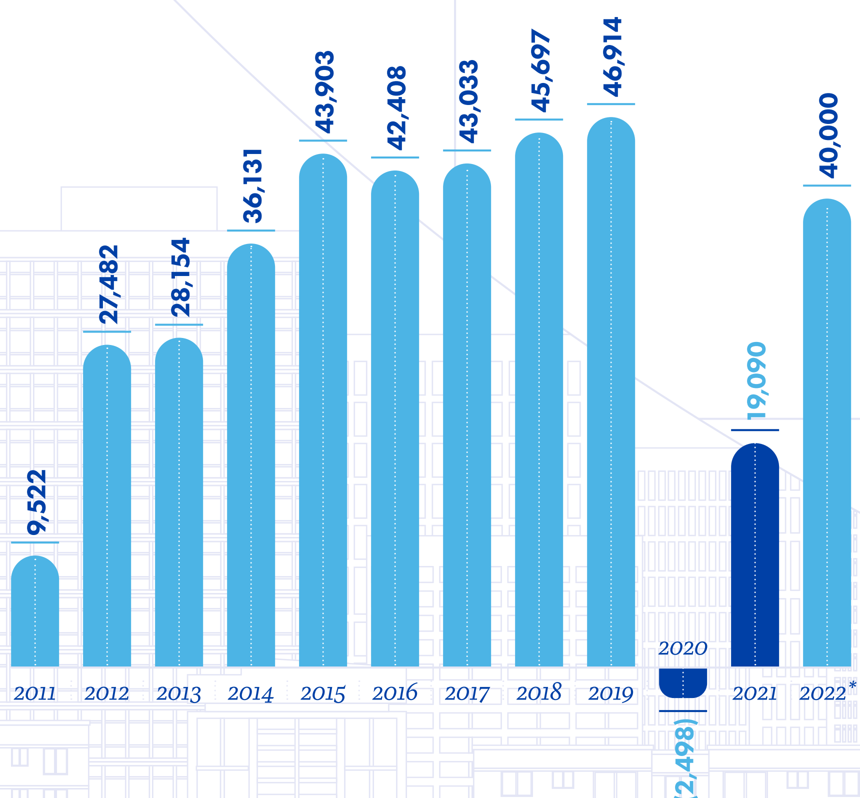
The second factor driving the recovery is population growth. The region added about 40,000 residents per year on average leading up to 2020. In 2021, the local population grew by about 1 percent with the addition of nearly 20,000 people, and forecasts call for more rapid gains in 2022 and the years to come.

A final factor bolstering the recovery in Las Vegas is a more diversified economy. While the leisure and hospitality sector still fuels the market, the region has added approximately 13,000 transportation, distribution and warehousing jobs since before the pandemic, and nearly 5,000 healthcare workers.

In 2021, the local population grew by about 1 percent with the addition of nearly 20,000 people, and forecasts call for more rapid gains in 2022 and the years to come.

Rapid population growth resumes

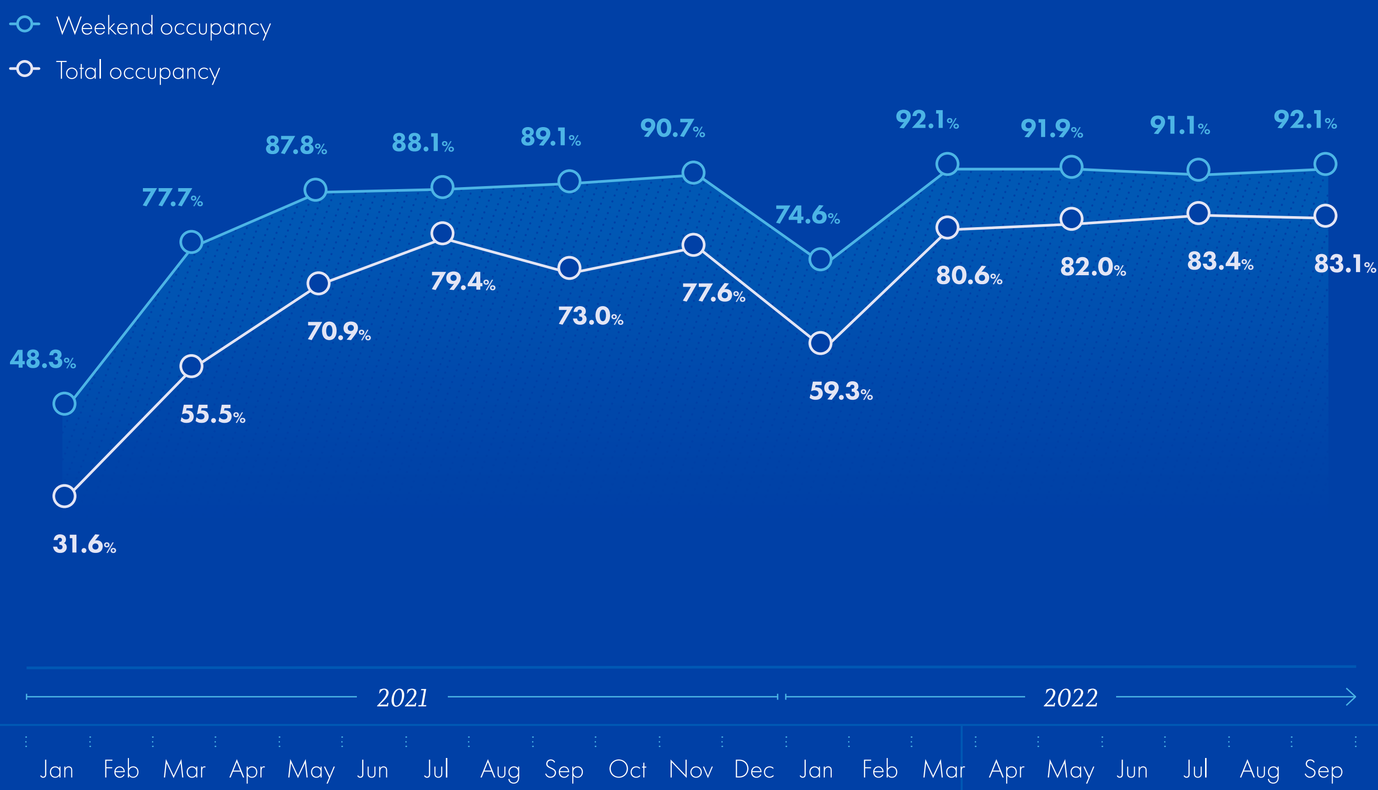
in Las Vegas *(2011-2022*)*



** Forecast*

Sources: Northmarq, U.S. Census Bureau

Las Vegas hotel occupancy
rebounding as economy bounces back
(percentage)



With the region's demand drivers in place, developers are bringing new SF BTR projects through the construction pipeline. The first new community was delivered near the end of 2021, and nearly 575 units are currently under construction.

Projects that are under construction are located in North Las Vegas, Henderson, and south Las Vegas. With an additional 650 units planned, the inventory of single-family rentals in the Las Vegas market will likely total nearly 2,000 units in the next few years. The new construction complements the growth in market's total housing stock. Approximately 8,000 traditional apartments are under construction and permits for 11,000 single-family homes have been issued in the past 12 months.

Investors are responding favorably to the BTR product type in Las Vegas. Earlier this year, a new single-family project sold for more than $432,000 per unit. Additionally, a recent acquisition closed involving a community that was still under construction.

Earlier this year, a new single-family project sold for more than $432,000 per unit.

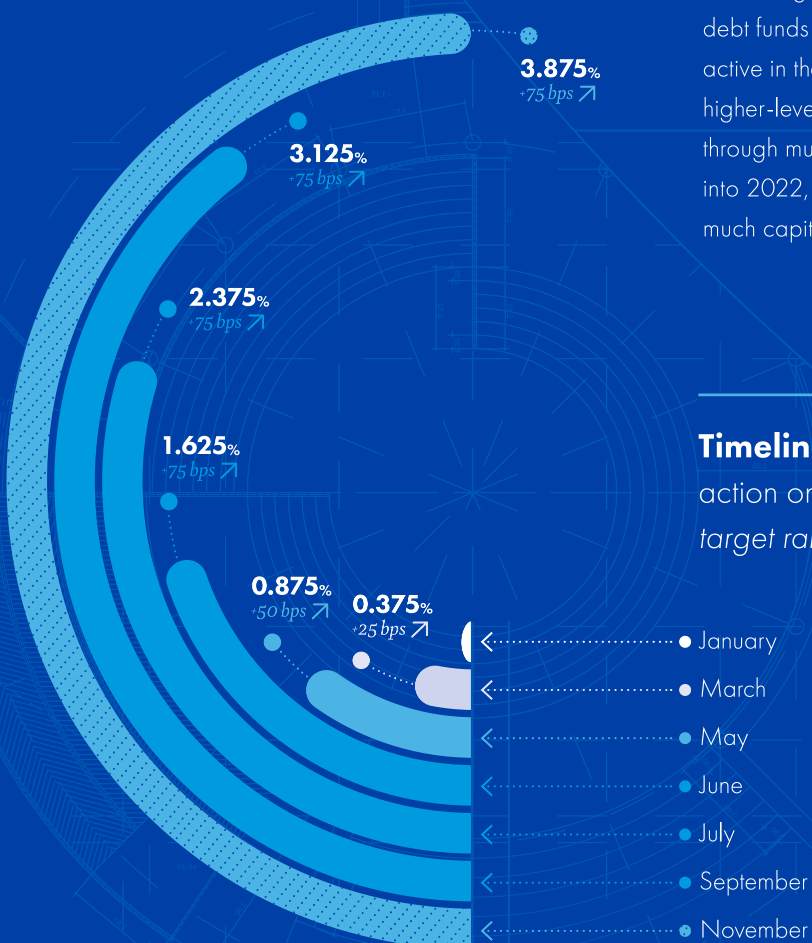
Sources: Northmarq, Las Vegas Convention and Visitors Authority

Debt & equity climate

Similar to traditional multifamily assets, single-family build-to-rent properties are being impacted by rising interest rates and a cooling economy. Still, the property segment is attracting attention, and a deeper pool of capital sources are becoming active in the space. One reason for the increasing attention and liquidity in the market is the desire for developers, operators, and lenders to get exposure to one of the few new product types in the real estate industry. A second set of reasons includes: the sector's strong performance, elevated renter demand, and low resident turnover.

While the SF BTR product type continues to be popular in the capital markets, the current environment is showing clear differences from 6 or 12 months ago. Specifically, the debt funds that had been very active in the non-recourse, higher-leverage space through much of 2021 and into 2022, are not placing as much capital. Current coupon rates for debt funds have risen to 8 percent or higher, up from closer to 3 percent one year ago. Preferred equity groups are still active and able to bridge the proceeds gap, however, as with the banks, they are being more cognizant of last dollar basis and generally targeting lower loan-to-cost ratios than at the beginning of this year.

Timeline of Federal Reserve
action on fed funds rate
target range for 2022



Sources: Northmarq, Federal Reserve

CONSTRUCTION *debt funding*

Construction financing for build-to-rent properties is expected to remain in demand over the next few years as the product type gains traction and a greater number of BTR projects enter the development pipeline. That being said, construction financing has been impacted by rising rates as banks underwrite higher exit refinance rates, impacting loan proceeds.

At this point in the cycle, banks are the largest source of construction financing. Balance sheet lenders are also active, particularly when working with developers with several projects in the pipeline. The agencies remain active in issuing the take-out financing, particularly in cases where projects can fit within the affordability mission for Fannie Mae and Freddie Mac.

While construction loan terms will not be as favorable as a few years ago, there is sufficient appetite in the market to proceed with new projects even at higher costs of capital. Large operators see SF BTR projects as a way to diversify their portfolios and meet the demands of a desirable pool of renters. From the lender's perspective, the rapid rates of lease-up and the elevated rents remove some risk from new development deals.

ACQUISITIONS *debt funding*

After sales of single-family rental communities spiked in late 2021, activity has slowed. As such, origination volume for BTR communities has also leveled off, following a very active previous year. Fannie Mae and Freddie Mac are the leading sources of acquisition financing, with transactions being underwritten similar to new, Class A apartment properties.

Total agency origination volume for all multifamily properties rose 14 percent from the first half of last year to the first half of 2022, although exact figures for the BTR sector are not available. Life insurance companies and banks are increasingly moving into the space.

FINANCING *equity funding*

Single-family build-to-rent became a favored class for investors in 2021, and equity came pouring into the sector through joint ventures and private equity seeking acquisition and development opportunities. The headline-generating announcements have slowed to this point in 2022, but there remains significant equity available for the BTR sector, particularly in light of lagging returns in other sectors.

Construction financing for build-to-rent properties is expected to remain in demand over the next few years.

OUTLOOK

Greater uncertainty, but long-term demand *drivers in place.*

Current renters who were looking to purchase first homes will likely need to wait a while longer until mortgage rates decline and/or housing prices creep lower.

While the economic picture has dimmed as the year has progressed, the short- and medium-term outlooks for single-family build-to-rent properties have remained attractive. Renter demand for these homes is being fueled by demographic trends as millennials age and their housing needs change. Further, a still-healthy labor market should continue to support new household formation.

While demand for all forms of housing has been on the rise as the economy has expanded, a significant share of demand growth for single-family residences in recent years has been filled by people buying their first home. From early 2020 to early 2022, homeownership rates for people under age 35 rose by 150 basis points, reaching nearly 39 percent.

Looking ahead, transitioning to homeownership will become a greater challenge. Much of the recent growth has been fueled by tight labor conditions, strong wage increases, and historically low mortgage rates. While the outlook for the labor market calls for additional gains, current mortgage rates are more than twice as high as at the beginning of the year, and most signs point to slower wage growth in the cooling economy.

With their purchasing power cut, current renters who were looking to purchase first homes will likely need to wait a while longer until mortgage rates decline and/or housing prices creep lower. This lag should continue to support demand for single-family rentals, particularly those properties that offer the newest in smart-home technologies and amenities.

As 2022 comes to a close, the labor market has continued to expand and weekly new claims for unemployment have remained in a very low range. These trends signal that while employers may be slowing their pace of hiring, job cuts have yet to materialize in any widespread manner. If labor markets remain on this flatter upward trajectory, new renter household creation should continue.

Developers will find new opportunities to continue to acquire land parcels for new single-family rental developments. While the number of SF BTR units is growing, it still accounts for a small fraction of total single-family home starts. Current levels of single-family homes built as rentals total approximately 6 percent of new home starts, up from 5 percent a few years ago. The softer for-sale housing market, particularly for new homes, is expected to allow single-family rental operators to acquire blocks of new homes, finished lots, and larger land parcels from homebuilders.

The investment market may require a few more months for buyers and sellers to close the expectations gap on pricing and cap rates, but the underlying fundamentals for the SF BTR class are expected to remain healthy, which will ultimately support property sales. With a more uncertain outlook in the overall economy, lenders and investors are expected to favor less risky assets. Single-family rental communities, which often have high-wage renters and low turnover, should stand out in the current economic climate.

Residents are expected to continue to demand new, single-family rentals, particularly as the affordability of for-sale housing grows further out of reach.

While a growing segment of renters favors the single-family build-to-rent product type, and developers are finding it to be well-received and profitable, there are a few potential threats investors will continue to track. New projects are beginning to see some resistance in the mainstream press and in a small number of communities. A popular narrative is that single-family rentals are somehow "crowding out" would-be homeowners, rather than offering renters an alternative to traditional options such as apartments or older single-family homes without professional management.

The most likely outcome is that those objections will be overcome and the market will self-correct. Home sales are likely to slow, while new household formation is expected to continue at a modest pace. Residents are expected to continue to demand new, single-family rentals, particularly as the affordability of for-sale housing grows further out of reach. In instances where municipalities object to single-family rentals, some projects may become more dense townhome communities, rather than developments of freestanding single-family homes.

Proven **results.**

The newest investment sales category isn't new to us.

Northmarq has positioned itself as an early industry leader in brokerage and financing single-family build-to-rent transactions. Our professionals have assisted in the sale and financing of SF BTR transactions totaling approximately $2 billion.

With more than two dozen active SF BTR listings across our national platform, we will remain active in the space. We look forward to working with our clients in this emerging segment of the rental housing market.

With our coast-to-coast capabilities, we demonstrate how our client-focused, integrated approach is one of the best in the industry. We bring you the right buyers or opportunities, and ensure the capital structure brings you the most leverage and return.

$2B
Transaction *volume*

75+
Transactions *across the US*

35
Active BTR *assignments*

300
BTR/SFR *evaluations*

Lakeside Farms
270 homes | Smithville MO
Under construction

Coming soon

VLUX @ Sunset Farms
224 homes | Tolleson AZ
Under construction, individual tax parcels

Coming soon

VLUX @ Peoria Heights
189 homes | Peoria AZ
Under construction, Individual tax parcels

On the market

VLUX @ Queen Creek
241 homes | Queen Creek AZ
Under construction, individual tax parcels

On the market

Goldwater Estates
32 homes | Phoenix AZ
New construction, attached garages

On the market

AVERE on the High Line
56 homes | Denver CO
New construction, attached garages

On the market

Franklin on Southern
25 homes | Phoenix AZ
New construction, attached garages

On the market

TerraLane @ Cotton
224 homes | Mesa AZ
New construction, individual tax parcels

On the market

Cascade Square
54 homes | Atlanta GA
Project completion 2024

On the market

Ashford Townes
74 homes | Fuquay-Varina NC
New construction, attached garages

On the market

CTC Ellsworth
144 homes | Surprise AZ
New construction, lease-up

In escrow

Village Townhomes
20 homes | Evan CO
New construction, attached garages

In escrow

The Orchards
38 homes | Phoenix AZ
New construction, individual tax parcels

In escrow

Amazon Falls
184 homes | Eagle ID
Two tax parcels, luxury product

In escrow

Townhomes at Bluebonnet Trails
114 homes | Waxahachie TX
New construction

In escrow

Our team of experts.

With demonstrated expertise and with skilled experts operating in the markets where the single-family build-to-rent segment is growing the fastest, Northmarq is the industry leader for brokerage and capital markets activity in the space.

Please contact one of our SF BTR experts for any financing or brokerage needs.

BUILD-TO-RENT *advisory group*

Trevor Koskovich
President
Investment Sales
602.952.4040

Jeff Erxleben
President
Debt & Equity
972.455.1934

Brandon Harrington
Managing Director
Debt & Equity
602.508.2204

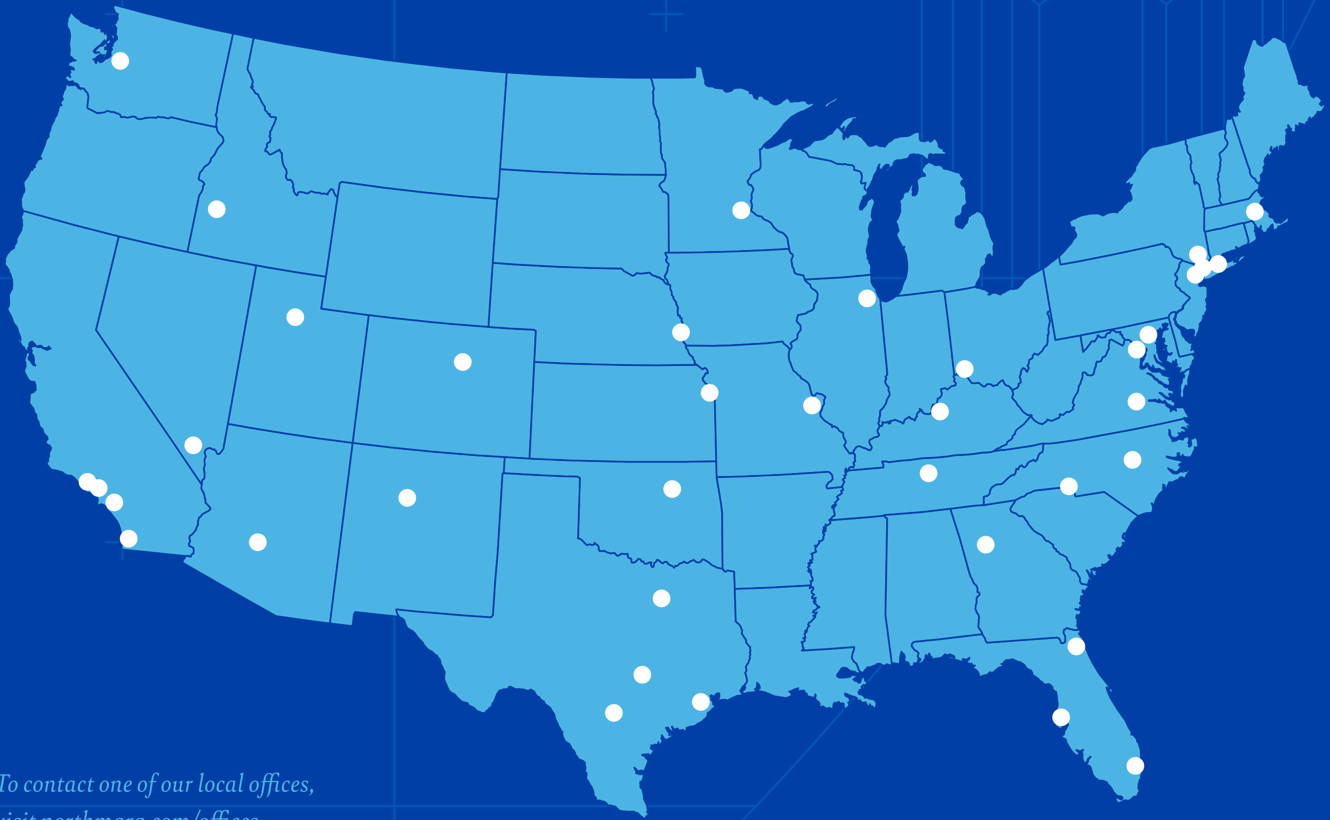
Faron Thompson
Managing Director
Debt & Equity
678.954.4674

Scott Lamontagne
Managing Director
Investment Sales
512.450.6820

Taylor Snoddy
Managing Director
Investment Sales
972.455.4928

John Currin
Senior Vice President
Investment Sales
704.595.4276

Peter Chacon
Vice President
Investment Sales
678.954.4662



To contact one of our local offices, visit northmarq.com/offices

Why Northmarq?

INTEGRATED TEAM OF PROFESSIONALS

We've built our reputation on valuing long-term trust over short-term wins, grounded in our commitment to put client interest before our own – offering a customized approach with an integrated team of experts.

COLLABORATION KEEPS THE DEAL SIMPLE

Leave the due diligence, market evaluation, buyer interest, and equity partnerships to us. We'll identify the best positioning for the property and target potential equity partners early in the process to ensure the transaction is smooth – from start to finish.

NATIONAL PLATFORM BOUTIQUE TOUCH

While Northmarq transacts across the country, we're best known for the customized approach we offer clients. We operate like a boutique firm, where the entire Northmarq team rallies to provide the best outcome and experience for our clients.

Northmarq

FOR MORE INFORMATION,
please contact:

Trevor Koskovich
President–Investment Sales
P 602.952.4040
E tkoskovich@northmarq.com

Jeff Erxleben
President–Debt & Equity
P 972.455.1934
E jerxleben@northmarq.com

Pete O'Neil
Director of Research
P 602.508.2212
E poneil@northmarq.com

Corporate Headquarters
3500 American Blvd
Suite 500
Minneapolis, MN 55431

ABOUT NORTHMARQ

As a capital markets leader, Northmarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $30 billion, loan servicing portfolio of more than $70 billion and the multi-year tenure of our nearly 700 people.

BUILT TO THRIVE®
northmarq.com