AMHERST CAPITAL MARKET COMMENTARY
APRIL 2018

An update on institutional single-family rental activity – 2017/2018 U.S. market trends support long-term growth & opportunity

In 2017, the single-family rental ("SFR") asset class made further progress towards being widely-recognized as an institutional investment – below are some of the key takeaways and market trends addressed in our commentary article:

- **Increasing capital flows** – in 2017, SFR purchases by institutional investors increased over the previous year for the first time since 2013 – increased investor activity is pushing capital into the SFR space and validating its longevity as an alternative asset class for investors
- **Consolidation across large institutional owners** – these developments have led many companies to consolidate their SFR portfolios. Mergers and portfolio acquisitions open up potential cost synergies for acquirers, and grant additional scale to the remaining operators in the SFR sector
- **Government sponsored enterprises ("GSEs") launch pilot deals backing SFR** – in early 2018, Freddie Mac joined Fannie Mae in guaranteeing loans on institutionally-owned SFRs. The introduction of the two major government-backed financiers indicates broader acceptance and the availability of more financing options in the SFR market

INTRODUCTION:
UPDATE ON INSTITUTIONAL SFR ACTIVITY (2017/2018)

Our November 2016 whitepaper, "U.S. Single Family Rental - An Emerging Institutional Asset Class," examined single-family rentals as an institution-owned, long-term commercial real-estate ("CRE") asset. It broadly discussed the U.S. housing market and single-family rentals, and examined drivers behind the growth of single-family rentals, and in particular, institutional SFR.

We followed that up with an update on institutional activity in August 2017.

In the April 2018 commentary, we explore more recent developments in the space focusing on 2017 through early 2018.

Based on tagging known institutional players in public county record transaction data, we estimate that they own and manage nearly 220,000 single-family rental properties; in our opinion, the actual number is likely closer to 300,000.

FIGURE 1. ESTIMATED NUMBER OF INSTITUTION-OWNED SINGLE-FAMILY RENTALS AS OF YE 2017

INSTITUTION	HOMES OWNED	UNITS WITH SALE AMOUNT IN TRANSACTION DATA	% COVERAGE	EST. PURCHASE PRICE ($mm)	EST. ALL IN COST ($mm)	AVERAGE COST ($k)	AVERAGE LANDED COST ($k)
BLACKSTONE (INVITATION HOMES)	78,475	70,019	89%	11,798	14,450	168	184
AMERICAN HOMES 4 RENT	48,179	41,893	87%	6,196	8,536	148	177
PROGRESS RESIDENTIAL	22,320	19,987	90%	3,358	4,086	168	183
TRICON AMERICAN HOMES	14,216	10,960	77%	1,188	1,749	108	123
CERBERUS CAPITAL MANAGEMENT	11,006	5,625	51%	674	1,496	120	136
MAIN STREET RENEWAL[1]	10,742	8,514	79%	1,010	1,515	119	141
ALTISOURCE RESIDENTIAL	8,883	2,723	31%	407	1,556	150	175
CONNOREX-LUCINDA	5,059	4,622	91%	326	464	70	92
HAVENBROOK HOMES	3,986	3,843	96%	362	449	94	113
VINEBROOK HOMES	2,634	1,583	60%	92	222	58	84
GORELICK BROTHERS CAPITAL	2,440	1,869	77%	165	265	88	109
GOLDEN TREE INSITE PARTNERS (GTIS)	2,145	1,657	77%	210	307	127	143
LAFAYETTE REAL ESTATE	1,312	1,029	78%	84	122	82	93
CAMILLO PROPERTIES	1204	16	1%	1	178	56	148
HAVEN HOMES	1,110	1072	97%	163	194	152	175
OVATION PARTNERS	1,058	634	60%	53	91	84	86
TRANSCENDENT INVESTMENT MANAGEMENT	880	812	92%	100	122	123	139
REVEN HOUSING REIT	686	226	33%	28	103	125	150
RESIDENTIAL CAPITAL MANAGEMENT	545	519	95%	62	65	119	118
PRAGER PROPERTY MANAGEMENT	477	152	32%	25	101	165	211
OPENDOOR	443	368	83%	93	110	252	249
PINTAR INVESTMENT COMPANY	207	172	83%	35	51	204	246
HONE CAPITAL	137	137	100%	18	21	129	154
BROADTREE HOME RENTALS	64	20	31%	2	8	116	127
CENTRAL PENN CAPITAL MANAGEMENT	59	48	81%	6	8	125	128
AMERICAN HOUSING REIT	55	29	53%	3	7	103	125
Grand Total	218,322	178,529	82%	26,460	36,275	148	166

(1) Homes not owned but managed by Main Street Renewal on behalf of affiliated and unaffiliated owners.
Source: Amherst InsightLabs estimates based on Corelogic County Record and Transaction Data as of Q4 2017.
Note: Since these are derived from county record data based on buyer name tagging, they may not cover all the purchases by the listed institutional buyers, and are thus an estimate. Some intercompany transfers may not be included in our analysis if we were unable to tag both the buyer and the seller to a specific institution.

TREND REVERSAL:
PURCHASE ACTIVITY ACCELERATED BY 59% IN 2017 VS. 2016

FIGURE 2. ESTIMATED NUMBER OF INSTITUTIONAL SFR PURCHASES BY YEAR (2011 – 2017)

ORGANIZATION	2011	2012	2013	2014	2015	2016	2017
BLACKSTONE (INVITATION HOMES)	251	15,285	34,826	15,403	6,254	2,781	3,635
AMERICAN HOMES 4 RENT	343	8,876	17,253	11,966	4,955	1,389	3,307
PROGRESS RESIDENTIAL	2	488	5,166	4,687	4,729	3,971	3,277
TRICON AMERICAN HOMES	415	3,587	3,484	2,468	2,041	1,163	851
CERBERUS CAPITAL MANAGEMENT		768	2,168	435	2,232	329	5,074
MAIN STREET RENEWAL		124	893	1,829	1,465	1,536	4,895
ALTISOURCE RESIDENTIAL		1	37	348	981	4,053	3,462
CONNOREX-LUCINDA		52	438	1,039	1,062	1,390	1,078
HAVENBROOK HOMES	2	45	736	2,621	496	83	3
VINEBROOK HOMES	33	132	123	882	720	150	576

Source: Amherst InsightLabs estimates based on Corelogic County Record and Transaction Data as of Q4 2017.

Figure 2 shows estimated annual purchases for the top 10 institutional holders, with green indicating accelerated buying pace vs. the previous year and red indicating a slower pace relative to the previous year.

2017 was the first year since 2013 when single-family rental home purchases by investors increased vs. the prior year. Each year between 2013 and 2016, institutional investors bought fewer homes than the prior year.

This trend reversed in 2017 when institutions combined bought over 29,000 homes based on county record data - up a whopping 60% over the 18,000 homes purchased in 2016.

Among the top 10 holders (Figure 2), most are still buying a few thousand homes a year (this is excluding large mergers like Invitation Homes and Colony/Starwood). Main Street Renewal and Cerberus saw the biggest increases. The top three - Invitation Homes, American Homes 4 Rent and Progress Residential - each added more than 3,000 homes over the year as per county record data.

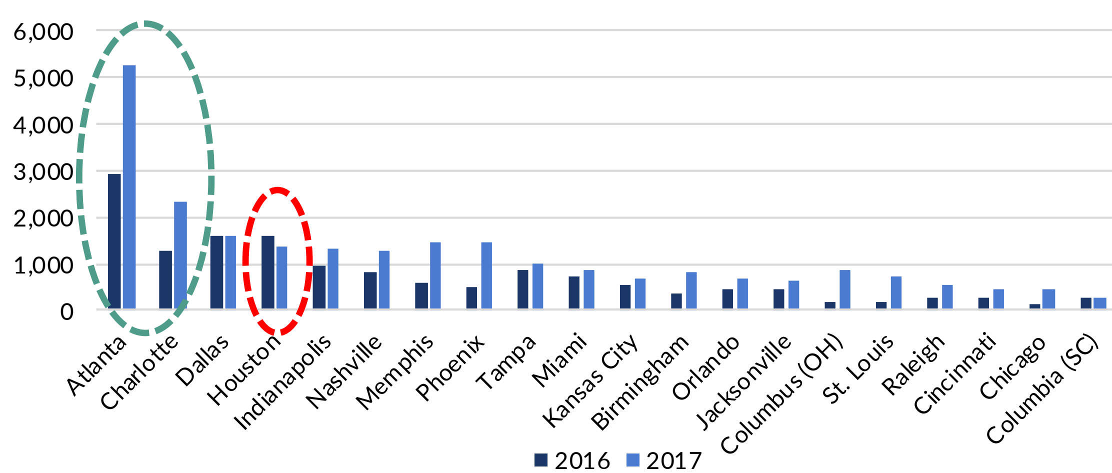
18 OF TOP 20 CBSAs SAW INCREASED PURCHASES IN 2017 VS. 2016; HOUSTON LAGGED

The increase in institutional purchasing in 2017 was fairly broad-based in geographical terms. As Figure 3 shows, 18 of the 20 most active core-based statistical areas ("CBSAs")* for SFR institutional investors purchased more in 2017 than in 2016.

Atlanta (GA) and Charlotte (NC) topped the list with the biggest increases in home purchases; others, such as Phoenix (AZ), Columbus (OH), St. Louis (MO), Raleigh (NC) and Chicago (IL) also saw large percentage increases. Miami (FL), Indianapolis (IN) and Tampa (FL) also saw increased purchases but at a much smaller percentage increase.

Besides Dallas (TX) – which had a negligible decline in purchase volume of about 1% – the only other major metro to see a reduction in purchase activity in 2017 vs. 2016 was Houston. The decline in Houston purchase volume from 2016 to 2017 does not appear to be driven by Hurricane Harvey, as many might expect, but could be more related to the economic slowdown in 2016, driven by oil prices. For the eight months before Hurricane Harvey (Jan-Aug), purchase volume in Houston was down about 13% in 2017 vs. 2016; for the four months after that, purchase volume in 2017 was a comparable 16% lower than the same months in 2016, which suggests that Hurricane Harvey was likely not the driver. More specifically, Altisource (rebranded as Front Yard Residential) and Progress Residential appear to have significantly decreased their purchase volume in Houston from 2016 to 2017. Finally, Tucson (AZ), Ogden (UT), Knoxville (TN), Salt Lake City (UT) and Boise (ID) – all of which had institutional activity in years past – had virtually no purchases in 2016. However, in 2017. each of these five metro areas again sprung to life with institutional purchase activity.

FIGURE 3. ESTIMATED SFR PURCHASES ACROSS TOP 20 CBSAs (2016 VS. 2017)



Sources: CoreLogic County Records; Amherst Capital estimates as of Q4 2017.

*Core-based statistical area ("CBSA") is defined as a U.S. geographic area that consists of one or more counties (or equivalents) anchored by an urban center of at least 10,000 people plus adjacent counties that are socioeconomically tied to the urban center by commuting.

CONSOLIDATION CONTINUES IN SFR SPACE DRIVEN BY ECONOMIES OF SCALE

The single-family rental industry continues to consolidate. In January 2017, StreetLane Homes was created by the formation of a joint venture of GTIS Partners LP (GoldenTree Insite Partners; included in exhibits detailing investor activity in our 2016 whitepaper) and 643 Capital Management.[1] The combined entity owned more than 3,500 single-family rental homes at the time of launch.

In October 2017, Amherst Holdings announced the acquisition of 1,523 homes from an institutional investor.[2]

In November 2017, Invitation Homes and Starwood Waypoint Homes completed their merger to create the largest single-family REIT with around 82,000 homes.[3]

Finally, in December 2017, Broadtree Residential announced the sale of 671 single-family units to Amherst Holdings' SFR platform.[4] These four transactions – and others like them – of mergers and portfolio acquisitions led to further consolidation and will likely lead to cost synergies for acquirers, and grant additional scale to the remaining operators.

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Sources: (1) https://www.businesswire.com/news/home/20170104005967/en/GTIS-Partners-643-Capital-Management-Announce-Launch (2) https://www.prnewswire.com/news-releases/amherst-holdings-single-family-residential-platform-acquires-portfolio-of-1523-properties-for-1534-million-300542606.html (3) https://www.housingwire.com/articles/41839-invitation-homes-starwood-waypoint-homes-merge-to-create-largest-single-family-landlord (4) https://globenewswire.com/news-release/2017/12/22/1270237/0/en/Broadtree-Residential-Inc-Completes-Sale-of-Single-Family-Rental-Home-Portfolio.html

BOTH GSEs HAVE PILOTED SFR LENDING; PRIVATE SECURITIZATION FINANCING COSTS REMAIN VERY LOW

In terms of financing, the SFR industry continues to make positive strides. As previously noted, Invitation Homes issued its initial public offering ("IPO") and Fannie Mae guaranteed a $1 billion Invitation Homes loan in early 2017.

In early January 2018, it was announced that Freddie Mac guaranteed a loan backed by homes owned by TrueLane Homes.[1] TrueLane is a mid-sized firm in the single-family rental space which owns about 1,000 homes in 11 markets and targets working class renters.

According to media reports, "Over 90% of the homes [in the Freddie Mac guaranteed loan] have rents considered affordable for families earning at or below 80% of the area median income ("AMI"). Moreover, 100% of the units are affordable for families at or below 100% of the AMI."[1]

Given the affordability metrics of the GSE-financed TrueLane properties, the loan appears to comply with Freddie Mac's goal of furthering affordable housing. The loan itself is an $11.1 million fixed rate loan with a 10 year term. It is secured by 195 single-family homes and a duplex.

This is Freddie Mac's first foray into a single borrower single-family rental loan of this scale. In addition, Freddie Mac has wrapped senior tranches of securitizations with loans from Corevest to middle-market SFR owners that typically own 50+ properties.

On the private label side, there were about $5bn in SFR securitizations issued in 2017 and spreads tightened significantly over the year. In addition, American Homes 4 Rent which has an investment grade corporate rating from S&P and Moody's issued $500mm in unsecured debt at competitive rates opening up another avenue for financing SFR. All of these, along with warehouse facilities and private lender participation, continue to point towards attractive financing availability for the single-family business.

Source: (1) http://www.housingfinance.com/finance/freddie-mac-berkadia-close-first-affordable-single-family-rental-loan_o

CONCLUSION:
RETURN EXPECTATIONS AND FUNDAMENTALS REMAIN SUPPORTIVE FOR HIGHER INSTITUTIONAL SFR SHARE

We strongly believe that SFR is increasingly recognized as a CRE asset class. The largest listed SFR REIT has a market cap of close to $12bn - which is more than half the size of large multi-family REITs like Avalon Bay or Equity Residential. Considering that this was achieved in five to seven years – vs. 20+ years of history that both Avalon Bay and Equity Residential have – is an indication of how far the institutional SFR market has come in a short period of time.

On the macro side, home prices and rents remain reasonably well-supported and continue to see tailwinds from a variety of demographic / economic / preference-related factors that we have discussed previously. In addition, competitive financing in the form of a private securitized market and unsecured bond issuance have the potential of boosting levered returns even further. We believe a combination of all the above bodes well for the continued growth in institutional involvement in the sector over the coming years.

IMPORTANT DISCLOSURES

The comments provided herein are a general market overview and do not constitute investment advice, are not predictive of any future market performance, are not provided as a sales or advertising communication, and do not represent an offer to sell or a solicitation of an offer to buy any security.

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(1) As of December 31, 2017. This amount includes $4.3 billion assets pertaining to certain discretionary multi -sector fixed income clients of our affiliate BNY Mellon Asset Management North America Corporation (AMNA), for which certain Amherst Capital employees provide advice acting as dual officers of AMNA. In addition, discretionary portfolios with approximately $371 million are managed by certain of our employees in their capacity as dual officers of The Dreyfus Corporation. AUM includes gross assets managed in the single-family equity and commercial real estate strategies, which includes $242 million and $65 million of leverage, respectively.

(2) Seed capital Investor. It is not known whether the listed client approves or disapproves of the adviser or the advisory services provided.