



Invesco Real Estate Real Estate Ideas that “CLIC” Single-family Rental

October 2022



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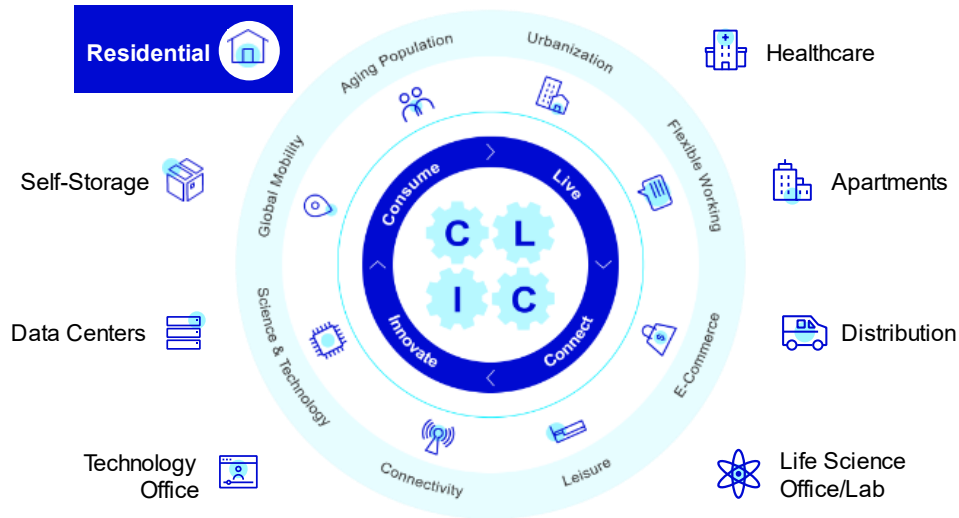
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Invesco Real Estate 101: Sector focus – Single-family Rental

Investing where we Consume, Live, Innovate and Connect (CLIC)

Invesco Real Estate (IRE) views real estate through a lens of evolving secular themes and demand drivers.



Source: Invesco Real Estate. For illustrative Purposes Only.

In discussing the Single-family rental sector, Invesco Real Estate (IRE) will examine three different areas:



Education



Fundamentals



Performance

Invesco Real Estate 101: Single-family rental snapshot



Intrinsic to the Single-family rental (SFR) sector

→ Large and integral component of the rental housing market

Institutional ownership growth

→ “Mom and pop” ownership has dominated until recently due to sector inefficiencies

Evolving rental trends

→ Strong demographic and lifestyle tailwind driving demand

Ownership may be out of reach

→ Affordability and balance sheet challenges creating long-term renters

If you build it, they will come

→ Housing production has lagged, but supply is starting to emerge, including Build-for-rent (BFR)

Advancements in home technology attracting large owners

→ Institutionalization rapidly emerging due to implementation of technology

Building blocks

→ Opportunity to scale drive higher net operating income (NOI) growth and value

Invesco Real Estate 101: Education – SFR typology

SFR/BFR and apartments tend to be complementary rather than competitive



Scattered site SFR



Typical location

Suburban, embedded within existing and new neighborhoods

Typical size (square feet (SF))

1,600 – 2,000 SF
Detached

Typical layout

3-4 beds, 2-bath, master-suite, private yard, integral garage

Typical rent (USD)

\$1,300 - \$2,000

Typical stay

3 - 4 years

Typical tenant

Families/couples

Typical renter age

35 - 54 years

Build for rent SFR (BFR)



Far suburban;
purpose-built community

600 - 2,000 SF
Attached or detached

1-3 beds, 1-2 baths, small private yards, parking options, some amenities

\$1,200 - \$2,200

3 - 4 years

Families/couples

35 - 54 years

Apartment



Urban/suburban;
purpose-built community

600 – 1,000 SF
Attached

1-2 beds, 1-2 bath, pool and gym amenities, surface or structured parking

\$1,000 - \$1,800

1 - 2 years

Singles/couples

Under 35 years

Source: Invesco Real Estate as of May 2022

The photographs are for illustrative purposes and are not current holdings of Invesco Real Estate.

Invesco Real Estate 101: Fundamentals – SFR demand drivers

Durable all-weather drivers, boosted by current demographic shifts



- SFR totals about 15 million units, similar in size to the traditional rental apartment market
- It is a long-accepted component of the rental housing market
- But until recently has been dominated by small “mom and pop” owners



- Aging millennials should drive strong growth in the prime SFR renter age cohort (35-44Y) over the next decade
- As millennials reach adult milestones (marry, start families), they will likely seek larger living units
- Millennials value the “optionality” provided by renting, the ability to be more mobile



- Student debt and impaired balance sheets impacting and delaying millennial's access to home ownership
- A sizeable share of older households have impaired credit, locking them into long term renting
- Home prices have outstripped incomes over the past decade; accumulating down payments can be challenging



- SFR home production totaled 6.5 million units over the past decade, a historic low
- New home production is skewed to larger homes; construction of entry-level homes remains limited
- Starting to see build-for-rent SFR communities emerge, but sector still in infancy



- Large, sophisticated owners currently control less than 3% of all SFR units
- Technology advances overcoming sector inefficiencies, resulting in operating economies, driving institutionalization
- Institutional liquidity and scale will likely drive higher net operating income (NOI) growth and yield compression

Source: Invesco Real Estate as of May 2022

Invesco Real Estate 101: Fundamentals - SFR attractive attributes

Yield premiums, technology beneficiary, exit optionality



✓ Attractive yields

- Potential yield premium to traditional apartment sector.
- Demand-supply dynamics expected to drive attractive income growth.
- Use of technology may result in operating economies that drive NOI growth.
- Sector maturity, institutional liquidity and scale may drive cap rate compression.
- Access to attractive and accretive leverage may enhance yields

✓ Cycle durability

- SFR has historically proven less cycle sensitive, potentially off-setting the more cyclical nature of traditional property sectors.
- Cycle durability should provide relatively stable and predictable cash flows.
- During COVID-19 pandemic, Real Estate Income Trust (REIT) SFR occupancy and rents increased to all-time highs.

✓ Diversification

- Broadening the number of investable property sectors beyond the traditional set provides diversification benefits for portfolio construction.
- The smaller individual asset size of SFR investments allows for market and asset level diversification:
 - A \$100 million investment may comprise approximately 300-400 SFR assets, located across multiple markets.¹

¹Targeted SFR asset values typically are \$250,000 USD and \$300,000 USD depending on market.

Source: Invesco Real Estate as of May 2022

Diversification does not guarantee a profit or eliminate the risk of loss.

Invesco Real Estate 101: Fundamentals – SFR risks, opportunities to monitor



Emerging sector brings both risks and opportunities



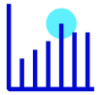
Operations

- ✓ Limited set of institutional quality operators/managers currently operating in the space.



Supply exposure

- ✓ Single-family development is increasing but remains limited for entry-level product.
- ✓ Growing pipeline of build-for-rent single family projects – risk and opportunity.



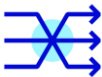
Shifts in mortgage rates

- ✓ Lower mortgage rates could encourage ownership and increase competition for assets.
- ✓ Higher mortgage rates could further limit access to ownership.



Shifts in housing policy and regulations

- ✓ Changes in regulations that either positively or negatively impact home ownership.
- ✓ Emergence of localized rent control or limitations on investor purchases.



Exit options

- ✓ Emerging sector, exit strategies still evolving, but optionality exists.
 - Portfolio sales (lower frictional costs, portfolio premiums)
 - Public listing
 - Re-cap with existing operating partner
 - Individual sales (higher frictional costs)

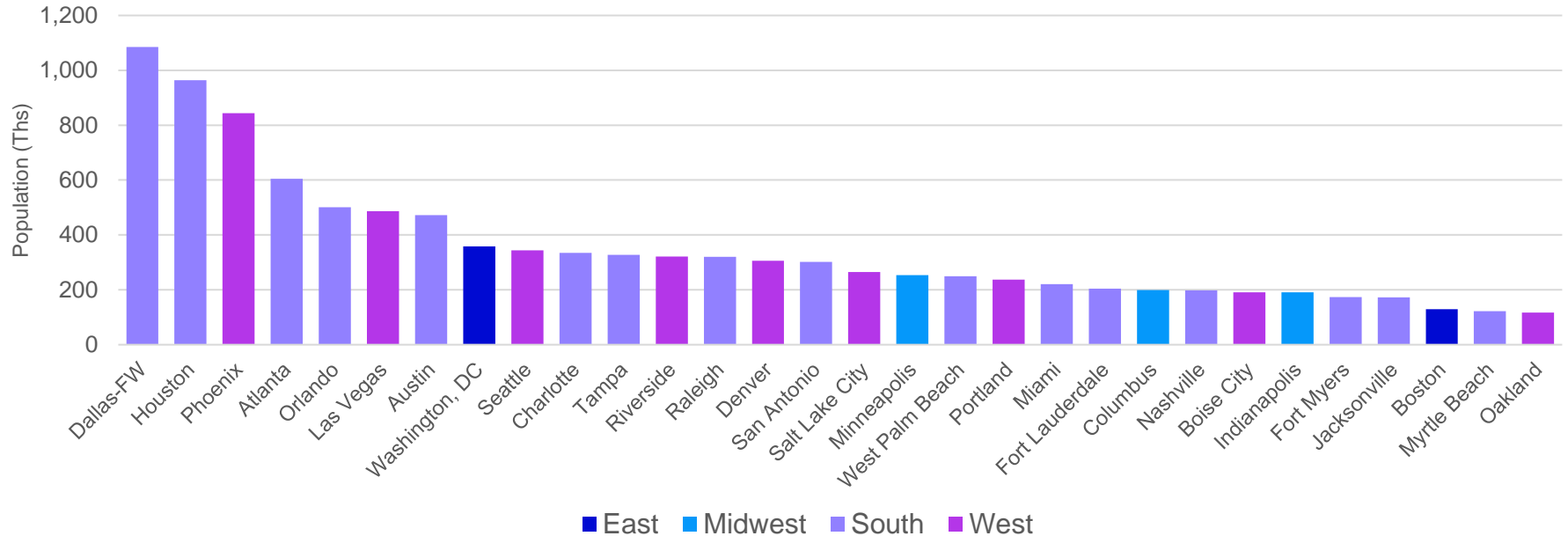
Source: Invesco Real Estate as of May 2022

Invesco Real Estate 101: Fundamentals – SFR population growth market trends



South and west markets will be the focus of growth (demand) over next decade

Projected net population gain 2022-2032: Top 30 markets (Ths)



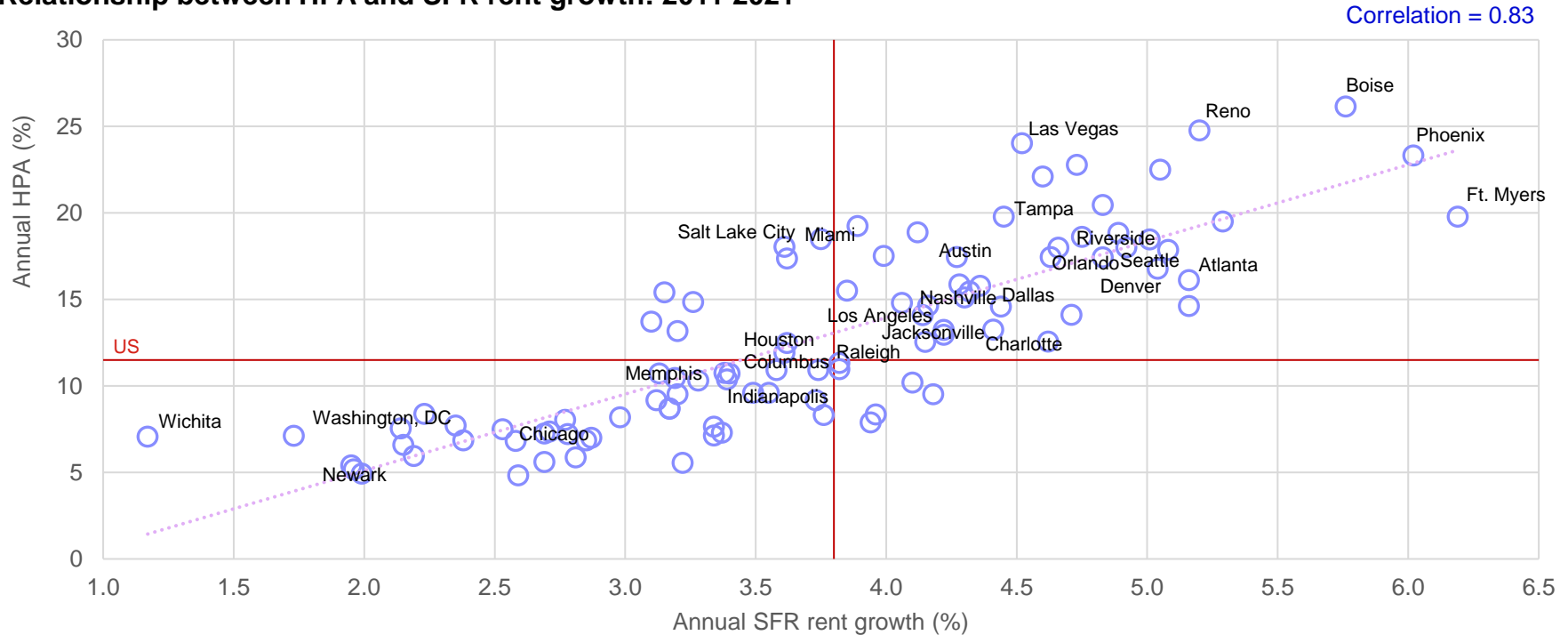
Source: Invesco Real Estate using data from Moody's Analytics as of May 15, 2022

Invesco Real Estate 101: Performance – SFR market trends

Rent growth and home price appreciation (HPA): strong relationship between home price growth and rent growth



Relationship between HPA and SFR rent growth: 2011-2021

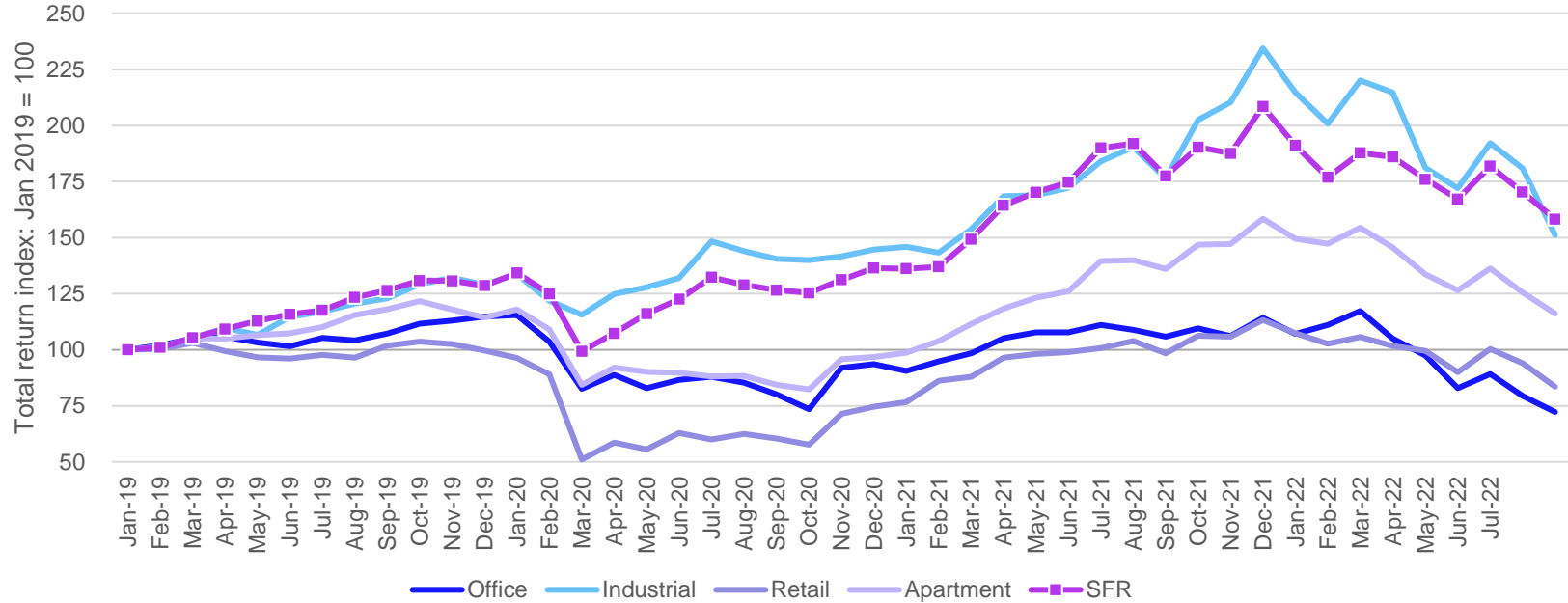


Invesco Real Estate 101: Performance – SFR capital markets

Transaction activity has recently accelerated; REIT's have been active



REIT performance data



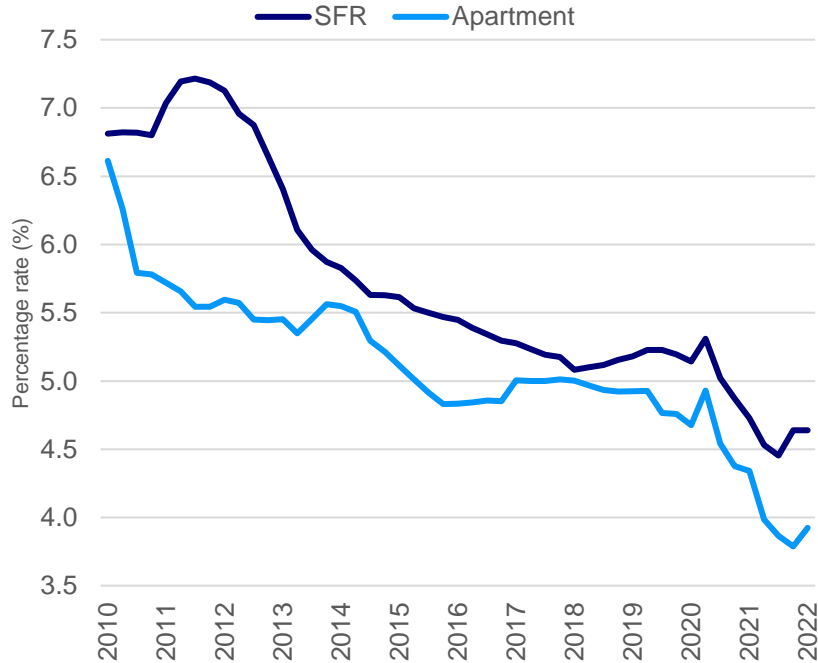
Source: NAREIT Monthly Property Index Values and Returns as of October 5, 2022
 Past performance does not guarantee future results.



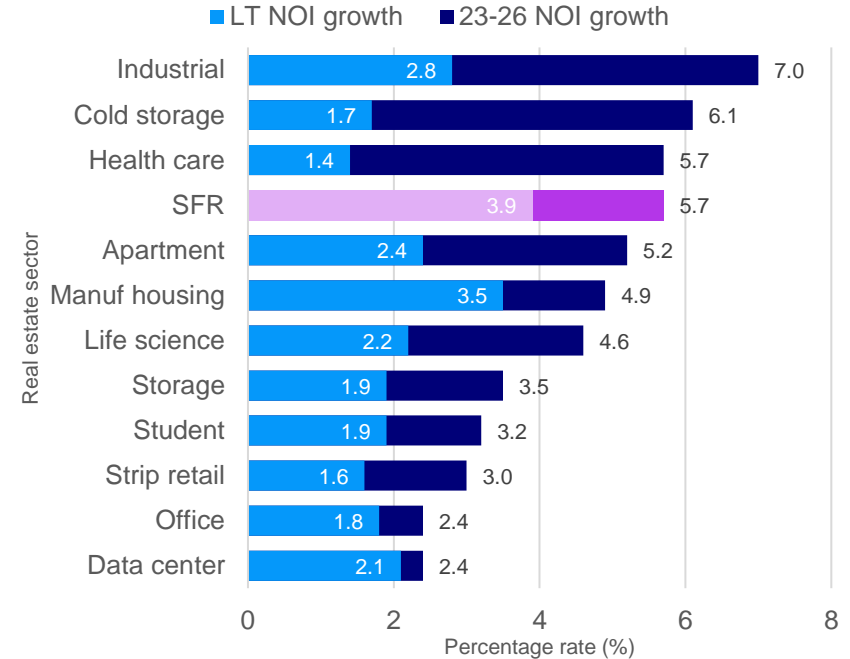
Invesco Real Estate 101: Performance – Cap rates and NOI growth

SFR has provided a premium yield to apartments, with stronger growth expectations

Nominal cap rates (%)



Annual NOI growth expectations (%)



Source: Invesco Real Estate using data from Green Street as of May 15, 2022. Past performance is not indicative of future results.

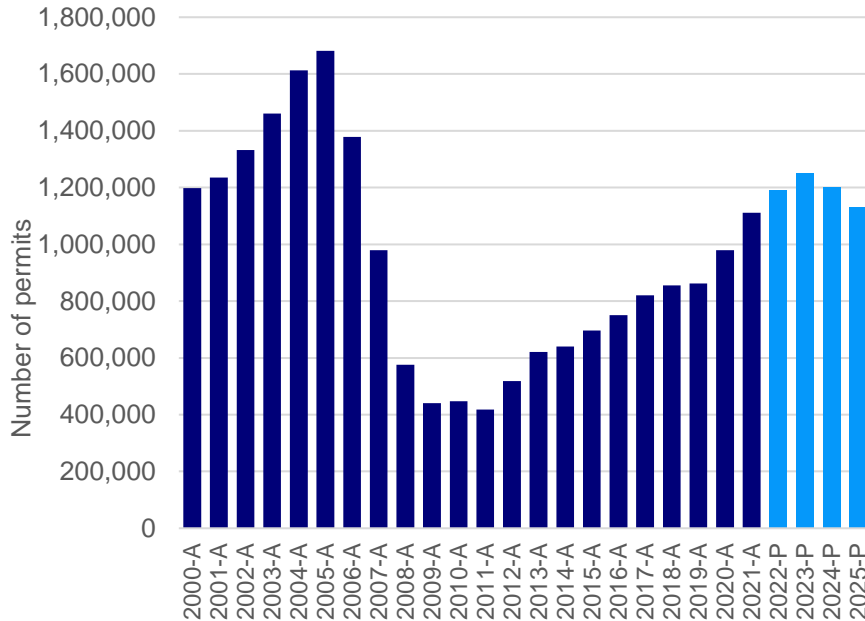
A nominal cap rate is calculated as: Nominal Net Operating Income (NOI) / Property Value. Forward 12-month estimated income from a property or portfolio after operating expenses are deducted from revenue. Further deductions for straight line and other non-cash rents are made to calculate Nominal Cash NOI.

Invesco Real Estate 101: Performance – SFR supply market trends

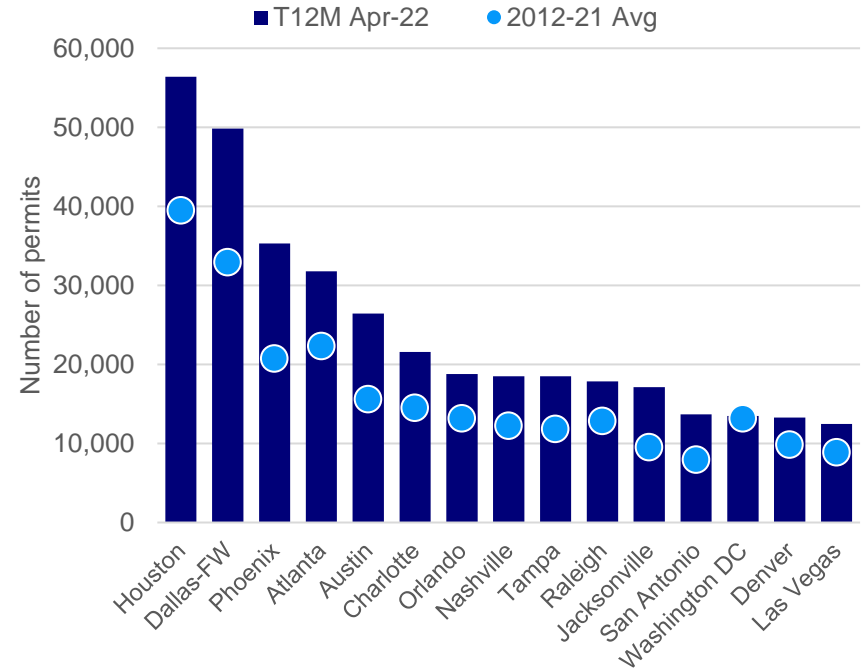
Supply has recently increased; fast-growth markets leading the way



Single-family permit issuance



Most active markets: SF permit issuance



JBREC forecast of single-family permit issuance as of April 2022.

Source: Invesco Real Estate using data from JBREC as of May 15, 2022. Past performance does not guarantee future results.

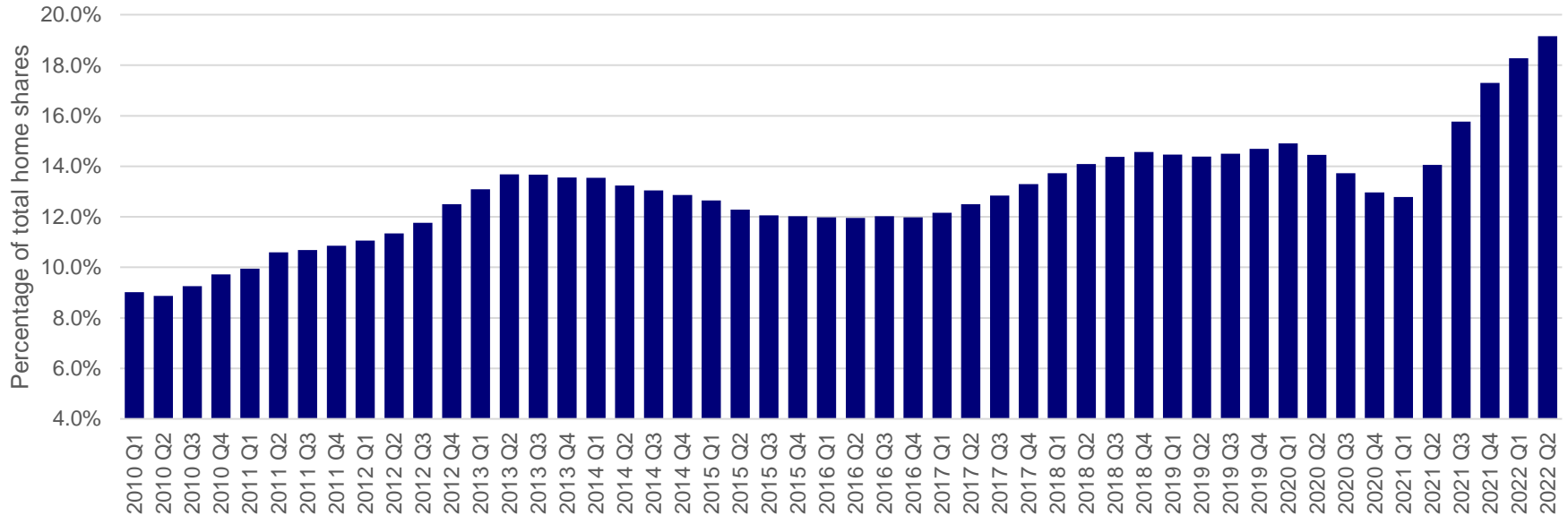
Invesco Real Estate 101: Performance – Direct investment in SFR

Over the past 12 years, the market share of home purchases by investors has steadily increased



Investor market share of home purchases

Based on trailing 12-month data from 41 metropolitan areas



Source: Redfin as of October 2022

Risk warning

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realized.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Important information

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Past performance is not indicative of future results.

Net Operating Income (NOI): A formula those in real estate use to quickly calculate profitability of a particular investment. NOI determines the revenue and profitability of invested real estate property after subtracting necessary operating expenses.

The opinions expressed are those of the speakers and are based on current market conditions as of October 5, 2022, unless otherwise noted and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

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